A Report
to the
Montana
Legislature

Financial-Compliance Audit

Public Employees' Retirement Board

For the Fiscal Year Ended June 30, 2012

February 2013

Legislative Audit
Division

12-08A

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§5-13-202(2), MCA

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Financial-Compliance Audits

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) licenses.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2011, was issued March 29, 2012. The Single Audit Report for the two fiscal years ended June 30, 2013, will be issued by March 31, 2014. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
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February 2013

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Public Employees' Retirement Board (PERB), a component unit of the state of Montana, for the fiscal year ended June 30, 2012. There are two recommendations in this report related to the actuarial soundness of four systems and not following established internal controls for the Section 457 deferred compensation plan.

PERB issues a Comprehensive Annual Financial Report (CAFR). Copies of the PERB's CAFR for fiscal year 2012 can be obtained from the Montana Public Employee Retirement Administration. The CAFR contains additional background, statistical, and actuarial information which may be of interest to legislators or the public.

We thank the executive director and her staff for their assistance and cooperation throughout the audit. The PERB response to the audit recommendations begins on page B-1 at the end of the audit report.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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Appointed and Administrative Officials

			Term Expires
Public Employees' Retirement Board	Scott Moore, President	Miles City	3/31/15
	Terrence Smith, Vice President	Bozeman	3/31/14
	Darcy Halpin	Belgrade	3/31/13
	Bob Bugni	Helena	3/31/14
	Dianna Porter	Butte	3/31/13
	Melissa Strecker	Missoula	3/31/17
	Timm Twardoski	Helena	3/31/16

Administrative Officials

Roxanne Minnehan, Executive Director

Patricia Davis, Member Services Bureau Chief

Barbara Quinn, Fiscal Services Bureau Chief

Melanie Symons, Chief Legal Counsel

Hollie Koehler, Internal Auditor

June Dosier, Information Systems Manager

For additional information concerning the Montana Public Employees' Retirement Board, contact:

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Montana Legislative Audit Division

Financial-Compliance Audit
Public Employees' Retirement Board
For the Fiscal Year Ended June 30, 2012

February 2013 12-08A Report Summary

There are eight defined benefit plans and two defined contribution plans administered by PERB. As noted in the results section below, four of the defined benefit plans are actuarially unsound at June 30, 2012. For fiscal year 2012, PERB reported approximately 36,497 active members and 22,231 members receiving retirement or disability payments. In the 457 deferred compensation plan, PERB reported approximately 8,156 participating members of which 4,584 were actively contributing in fiscal year 2012.

Context

The PERB is an independent, seven-member board, appointed by the Governor to administer ten retirement systems consisting of eight defined benefit plans and two defined contribution plans accounted for in pension trust funds. The defined benefit plans include the Public Employees' Retirement System-Defined Benefit Retirement Plan, Judges' Retirement System, Highway Patrol Officers' Retirement System, Sheriffs' Retirement System, Game Wardens' and Peace Officers' Retirement System, Municipal Police Officers' Retirement System, Firefighters' Unified Retirement System, and the Volunteer Firefighters' Compensation Act. The two defined contribution plans are the Public Employees' Retirement System-Defined Contribution Retirement Plan and the Section 457 Deferred Compensation Plan.

Fiscal year 2012 additions to plan net assets were $347.5 million in the defined benefit plans and $47.4 million in the defined contribution plans. Fiscal year 2012 deductions to plan net assets were $333.8 million in the defined benefit plans and $22.0 million in the defined contribution plans.

Results

This report contains two recommendations. One recommendation relates to the actuarial soundness of four defined benefit plans. The Public Employees' Retirement System Defined Benefit Retirement Plan, Sheriffs' Retirement System, Game Wardens' and Peace Officers' Retirement System, and Highway Patrol Officers' Retirement System are not actuarially sound. The Montana Constitution requires public retirement systems to be funded on an actuarially sound basis.

The second recommendation relates to incomplete reconciliations in the 457 deferred compensation plan that resulted in an $18 million misstatement on the state accounting records at fiscal year-end 2012.

Recommendation Concurrence	
Concur	2
Partially Concur	0
Do Not Concur	0

Source: Agency audit response included in final report.

For a complete copy of the report (12-08A) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at http://leg.mt.gov/audit
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Call toll-free 1-800-222-4446, or e-mail ladhotline@mt.gov.

Chapter I – Introduction

Audit Scope

We performed a financial-compliance audit of the Public Employees' Retirement Board (PERB) for the fiscal year ended June 30, 2012. The objectives of our audit were to:

1. Obtain an understanding of the PERB's internal control systems to the extent necessary to support our audit of the PERB's financial statements, and if appropriate, make recommendations for improvement in internal controls.
2. Determine whether the PERB's financial statements present fairly PERB's fiduciary net assets and changes in fiduciary net assets for the fiscal year ended June 30, 2012.
3. Determine the PERB's compliance with selected applicable laws.
4. Determine the status of the prior audit recommendation.

During our audit, we performed sample testing to confirm employer and employee contributions were made in accordance with state law and system requirements. We also sampled benefit payments to confirm payments made to retirees were calculated in accordance with state law and system requirements. We reviewed the presentation of the financial statements and note disclosures to determine that the information is supported in the underlying accounting records on SABHRS and the actuarial valuation as of June 30, 2012. Throughout the audit, we reviewed and tested PERB internal controls and determined compliance with selected state laws.

Internal Control Deficiency

Auditing standards require us to communicate, in writing, deficiencies in internal control we identified as a result of audit objective #1 above and considered to be significant or material. A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or detect and correct misstatements on a timely basis. A material weakness is one or more deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is one or more deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Table 1 outlines the status of the deficiency we identified during this audit.

Table 1
Summary of Deficiency in Internal Control

Subject	Type of Deficiency	Page
Incomplete reconciliations	Significant Deficiency	6

Background

The PERB is a component unit of the state of Montana. A component unit is a legally separate organization for which the state of Montana is financially accountable. The executive director and her staff provide daily administrative functions as directed by the board. The governor appoints the seven board members to five-year terms. The PERB administers ten retirement plans and the related member education funds. The retirement plans are described below:

Defined Benefit Plans

The PERB manages the activities of the following defined benefit pension plans:

- Public Employees' Retirement System – Defined Benefit Retirement Plan (PERS–DBRP)
- Judges' Retirement System (JRS)
- Highway Patrol Officers' Retirement System (HPORS)
- Sheriffs' Retirement System (SRS)
- Game Wardens' and Peace Officers' Retirement System (GWPORS)
- Municipal Police Officers' Retirement System (MPORS)
- Firefighters' Unified Retirement System (FURS)
- Volunteer Firefighters' Compensation Act (VFCA)

These funds provide pension, disability, and death benefits to eligible members. With one exception, the monthly benefits are based on years of service and salary levels while employed. The Volunteer Firefighters' Compensation Act monthly benefits are based on years of service only.

Additions to net assets held in trust for benefits come from employer and employee contributions and investment earnings. State law governs retirement benefits or withdrawals when separating from service before retirement.

Defined Contribution Plans

- **The Public Employees' Retirement System - Defined Contribution Retirement Plan (PERS-DCRP)** – This plan provides retirement, disability and death benefits for plan members. The plan was available to all active PERS members effective July 1, 2002. All new members are initially enrolled in the defined benefit retirement plan and have a 12-month window to elect to either remain in the defined benefit retirement plan (DBRP) or join the defined contribution retirement plan (DCRP) by filing an irrevocable election. Additions to net assets held in trust for benefits include contributions from the member and the employer as well as earnings on investments chosen by the member. Members can choose to invest in a fixed option,

which guarantees both principal and earnings at a pre-established quarterly earnings rate or a variable investment option, which consists of numerous mutual funds. Members are allowed to invest in both the fixed and variable options. Those participating in the variable option may invest in as many offered funds as desired. State law governs retirement benefits or withdrawals when separating from service before retirement.

- **The Deferred Compensation (457) Plan** – This plan is a voluntary supplemental retirement savings plan for employees who choose to participate and are employed by the State, University or political subdivisions that contract with the plan. Members contribute a portion of their compensation to the plan deferring state and federal taxes until withdrawal. Additions to net assets held in trust for benefits include contributions from members and earnings on investments chosen by the member. Some employers also contribute. Members can choose to invest in a fixed option, which guarantees both principal and earnings at a pre-established quarterly earnings rate or a variable investment option, which consists of numerous mutual funds. Members are allowed to invest in both the fixed and variable options. Those participating in the variable option may invest in as many offered funds as desired. Withdrawal of deferred compensation funds is only an option for employees upon separation from service, retirement, death or upon an unforeseeable emergency meeting IRS-specified criteria while still employed.

Prior Audit Recommendation

The financial audit for the fiscal year ended June 30, 2011, contained one recommendation for the PERB to seek legislation to restore the actuarial soundness of the PERS-DBRP, SRS, GWPORS, and HPORS as required by the Montana Constitution and state law. The four systems continued to be actuarially unsound at June 30, 2012. Article VIII, Section 15, of the Montana Constitution requires the public retirement systems be funded on an actuarially sound basis. This is discussed in more detail starting on page 5.

Chapter II – Findings and Recommendations

Four Retirement Systems Actuarially Unsound

The Public Employees' Retirement System – Defined Benefit Retirement Plan (PERS-DBRP), Sheriffs' Retirement System (SRS), Game Wardens' and Peace Officers' Retirement System (GWPORS), and Highway Patrol Officers' Retirement System (HPORS) are actuarially unsound, based on the June 30, 2012, actuarial valuations.

Article VIII, Section 15, of the Montana Constitution, requires public retirement systems be funded on an actuarially sound basis. To be actuarially sound, a retirement system's contributions must be sufficient to pay the full actuarial cost of the plan over a scheduled period of no more than 30 years. The full actuarial cost includes both the normal cost of providing benefits as they accrue in the future and the cost of amortizing unfunded liabilities. Based on the June 30, 2012, actuarial valuations, the amortization period for PERS-DBRP, SRS, and GWPORS is infinite, meaning it does not amortize. The amortization period for HPORS is 49.7 years.

The 2011 Legislature enacted into law several of PERB's proposed changes to the various plans primarily affecting new employees. These changes include:

- Clarifying existing statutes governing termination of service, disability benefits, service credits, and retirement eligibility
- Contribution rate increases
- Changes in retirement benefit calculations
- Changes in highest average salary calculations

For the 2013 Legislative Session, legislation has been introduced to further address the soundness of these systems. Proposed legislation includes temporarily increasing employer contributions; placing a cap on the earnings that may be included in the highest or final average compensation used to determine retirement benefits; requiring new PERS employees to become members of the defined contribution plan without the option of joining the defined benefit plan; requiring contributions for working retirees; and requiring the Governor to include in the executive budget the funding necessary to amortize the unfunded liability of the defined benefit plan.

Recommendation #1

We recommend the Public Employees' Retirement Board continue to promote legislation to restore actuarial soundness of the Public Employees' Retirement System - Defined Benefit Retirement Plan, Sheriffs' Retirement System, Game Wardens' and Peace Officers' Retirement System, and Highway Patrol Officers' Retirement System as required by the Montana Constitution.

Incomplete Reconciliations

Accounting personnel did not complete reconciliations between the state's accounting system and the related investment records resulting in an $18 million error on the state's accounting system at fiscal year-end.

Internal controls over financial reporting provide a certain degree of assurance that errors or omissions will be detected and corrected on a timely basis. State accounting policy requires agencies to implement internal control procedures to ensure all transactions necessary for compliance with generally accepted accounting principles (GAAP) are recorded on the state's accounting system prior to fiscal year-end. Internal controls designed by PERB require personnel to complete quarterly reconciliations between the state's accounting system and the records of the vendor responsible for maintaining records of the Section 457 Deferred Compensation plan (457 plan) investment activity. During fiscal year 2012, reconciliations were not fully completed as required, resulting in an $18 million error in an investment account for the 457 plan on the state's accounting system at June 30, 2012. The fiscal year 2012 financial statements were adjusted for this error.

Personnel noted that there has been turnover in the position responsible for completing the reconciliations, and sufficient time was not allocated to ensure the reconciliations were completed prior to fiscal year-end. PERB's reconciliation procedures are adequately designed, but the procedures were not followed.

Recommendation #2

We recommend the Public Employees' Retirement Board follow established internal control procedures by completing reconciliations of Section 457 Deferred Compensation plan investment activity.

Independent Auditor's Report

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Fiduciary Net Assets – Pension Trust Funds of the Public Employees' Retirement Board, a component unit of the state of Montana, as of June 30, 2012, and the related Statement of Changes in Fiduciary Net Assets – Pension Trust Funds for the fiscal year ended June 30, 2012. The information contained in these financial statements is the responsibility of the Public Employees' Retirement Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Public Employees' Retirement Board as of June 30, 2012, and the changes in fiduciary net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Funding Progress, the Schedule of Funding Progress for OPEB, and the Schedule of Employer Contributions & Other Contributing Entities be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Schedules of Administrative Expenses, Investment Expenses, and Professional/Consultant fees; the Detail of Fiduciary Net Assets (PERS-DBRP and PERS-DBEd) and the Detail of Fiduciary Net Assets (PERS-DCRP, PERS-DCEd and PERS-DC Disability) as of June 30, 2012; and the related Detail of Changes in Fiduciary Net Assets (PERS-DBRP and PERS-DBEd) and the Detail of Changes in Fiduciary Net Assets (PERS-DCRP, PERS-DCEd and PERS-DC Disability) for the fiscal year ended June 30, 2012, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

At June 30, 2012, the Public Employees' Retirement System – Defined Benefit Retirement Plan, Game Wardens' and Peace Officers', Sheriffs', and Highway Patrol Officers' retirement systems were not actuarially sound. The amortization period for the Unfunded Actuarial Accrued Liability is at 49.7 years for the Highway Patrol Officers' Retirement System. The Public Employees' Retirement System – Defined Benefit Retirement Plan, Game Wardens' and Peace Officers' Retirement System, and Sheriffs' Retirement System do not amortize. The maximum allowable amortization period is for a scheduled period of no more than 30 years.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

December 20, 2012

Public Employees' Retirement Board
Management's Discussion and Analysis,
Financial Statements, Notes, Required Supplementary
Information and Supplementary Information

Public Employees' Retirement Board

A Component Unit of the State of Montana

Management's Discussion and Analysis

This section presents management's discussion and analysis of the Montana Public Employees' Retirement Board's (PERB) financial presentation and performance of the plans administered by the PERB for the year ending June 30, 2012.

Financial Highlights

- *The PERB's combined total net assets of the defined benefit plans increased by $13.8 million or 0.3% in fiscal year 2012. The increase was primarily due to the positive investment income in each of the plans.*

- *The PERB's defined contribution plans combined total net assets increased by $25.4 million or 5.8% in fiscal year 2012. The total increase in net assets was due to the increase of investment income in the PERS-defined contribution retirement plan and the deferred compensation plan.*

- *Revenues (additions to plan net assets) for the PERB's defined benefit plans for fiscal year 2012 was $347.5 million, which includes member and employer contributions of $232.8 million and a net investment gain of $114.7 million.*

- *Revenues (additions to plan net assets) for the PERB's defined contribution plans for fiscal year 2012 was $47.4 million, which includes member and employer contributions of $31.1 million and a net investment gain of $16.3 million.*

- *Expenses (deductions to plan net assets) for the PERB's defined benefit plans increased from $307.4 million in fiscal year 2011 to $333.8 million in fiscal year 2012 or about 8.6%. The increase in 2012 is due to an increase in benefits and administrative expenses.*

- *Expenses (deductions to plan net assets) for the PERB's defined contribution plans increased from $21.1 million in fiscal year 2011 to $22.0 million in fiscal year 2012 or about 4.3%. The increase in expenses is primarily due to an increase in administrative expenses.*

- *The PERB's defined benefit plans' funding objectives are to meet long-term benefit obligations. As of June 30, 2012, the date of the latest actuarial valuation, three of the plans can pay off the Unfunded Actuarial Liability within 30 years or less. They are the Municipal Police Officers' Retirement System (MPORS), Firefighters' Unified Retirement System (FURS), and the Volunteer Firefighters' Compensation Act (VFCA). The plans that are not able to pay off the Unfunded Actuarial Liability within 30 years are the Public Employees' Retirement System (PERS), Highway Patrol Officers' Retirement System (HPORS), Sheriffs' Retirement System (SRS) and the Game Wardens' and Peace Officers' Retirement System (GWPORS). The Judges' Retirement System (JRS) has a surplus. This means there are more*

assets than liabilities in the plan. As a whole the plans were actuarially funded at an average of 76%. It is important to understand that this measure reflects the Actuarial Value of Assets for the defined benefit plans, which are currently less than the actual fair value published in the financial statements. Investment earnings are critical to the defined benefit plans. The actuary uses a four-year smoothing method for determining the Actuarial Value of Assets. This method is used to reduce the impact of volatility in the market. It is important to note that with smoothing, the losses experienced in the 2008-2009 plan year exceed the loss this year now being reflected in the Actuarial Value of Assets.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the PERB's financial reporting which is comprised of the following components:

(1) Financial Statements
(2) Notes to the Financial Statements
(3) Required Supplementary Information

Collectively, this information presents the combined net assets held in trust for pension benefits for each of the plans administered by the PERB as of June 30, 2012. This financial information also summarizes the combined changes in net assets held in trust for pension benefits for the year then ended. The information in each of these components is briefly summarized as follows:

(1) Financial Statements for the fiscal year ended June 30, 2012, are presented for the fiduciary funds administered by the PERB. Fiduciary funds are used to account for resources held for the benefit of outside parties. The fiduciary funds are held for participants in eight defined benefit plans and two defined contribution plans.

- The Statement of Fiduciary Net Assets is presented for the pension trust funds at June 30, 2012. These financial statements reflect the resources available to pay benefits to retirees and beneficiaries at the end of the year reported.

- The Statement of Changes in Fiduciary Net Assets is presented for the pension trust funds for the year ended June 30, 2012. These financial statements reflect the changes in the resources available to pay benefits to retirees and beneficiaries at the end of the year reported.

(2) The Notes to the Financial Statements provide additional information that is essential for a full understanding of the data provided in the financial statements. The information in the Notes to the Financial Statements is described as follows:

- Note A provides a summary of significant accounting policies including the basis of accounting; capital assets and equipment used in operations including the new system project MPERAtiv; operating lease; GASB 50 Disclosures on funding; GASB 45 Disclosures regarding Other Post Employment Benefits (OPEB); and summaries of the method to value investments and other significant accounting policies or explanations.

- Note B provides information about litigation.

- Note C describes the membership and descriptions of each of the plans administered by the PERB. Summaries of benefits and contribution information are also provided.

(3) The Required Supplementary Information consists of the schedules of funding progress and required contributions and related notes concerning actuarial information of the defined benefit pension plans administered by the PERB.

Financial Analysis of the Systems– Defined Benefit Plans

Investments

The State of Montana Board of Investments (BOI), as authorized by state law, invests the defined benefit plans' assets in investment pools. Each plan owns an equity position in the pools and receives proportionate investment income from the pool in accordance with respective ownership. The investment pools are: Montana Short Term Investment Pool, Montana Domestic Equity Pool, Retirement Fund Bond Pool, Montana International Equity Pool, Montana Real Estate Pool and Montana Private Equity Pool. Each plan's allocated share of the investment in the pools is shown in the Statement of Fiduciary Net Assets of the plan. Investment gains and losses are reported in the Statement of Changes in Fiduciary Net Assets.

Economic Condition

According to the Board of Investments Chief Investment Officer, Clifford Sheets, "As we begin fiscal 2013, economic conditions in the U.S. remain stable. A slowdown in the second quarter GDP to 1.3% has followed the pattern of the last two years of weaker growth during second and third quarters, followed by stronger first and fourth quarter economic readings. This pattern was marked in 2012 by a spring slowdown in the number of monthly jobs added, from around 200,000 per month in the first quarter to fewer than 100,000 per month in the second quarter. The unemployment rate has hovered around 8%, a stubbornly high rate considering we are technically into the fourth year of an economic expansion. A positive development over recent months has been a continued improvement in the housing market as new and existing home sales picked up in a market where prices appear to finally be slowly increasing. These conditions are benefiting from record low mortgage rates as bond yields in general remain low in reaction to monetary policy."

"Despite the slow improvement in the labor market, consumer confidence has improved in recent months and has supported a stable, although slow, rise in spending. Corporate profits remain high but have recently flattened out, and capital spending has dropped during the summer months, suggesting some hesitation on the part of the business sector. One reason for this hesitancy is likely to be the uncertainty posed by the so-called "fiscal cliff," a term coined to describe the year-end changes embedded in current law that will result in both tax increases and spending reductions. Should these changes go into effect as planned, the odds are the U.S. would see a mild recession at a minimum as we enter 2013. Given the November election and the current partisan divide in Washington, Congress is not likely to do anything to prevent this fiscal event from happening until after the election. And while the expectation is that indeed action will occur to mitigate much of the fiscal impact, there is still a risk action happens at the eleventh hour which in the meantime may act to undermine confidence in the capital markets."

"Given the continued weak employment picture in the U.S., the Federal Reserve decided in early September to launch a new bond buying program focused on mortgage securities in an effort to indirectly stimulate the economy. Also, efforts are underway in Europe by the European Central Bank to stem the risk to the banking and sovereign debt markets by launching a new program to buy shorter term bonds of a country in distress; but only on condition the country's fiscal budget meets austerity requirements established by outside authorities. The country currently in the market hot seat is Spain where economic conditions have worsened and investors have shunned Spain's bonds out of concern over a potential sovereign default. This effort is expected to prevent the risk of default, but still does little to turn the recession that is ongoing in Europe. The actions by central banks around the world to stimulate economic growth are feasible in a world marked by generally low inflation. A low level of inflation is likely to continue given still weak labor market conditions and well-behaved oil prices, though there is likely to be some offset from higher food prices in the wake of the drought in the U.S."

"As of early October, the outlook for U.S. GDP growth over the second half of this year was slightly below 2.0%. Growth next year is expected to marginally improve to 2.1% though it is highly contingent upon how Congress deals with the fiscal cliff. Despite all the uncertainties as year-end approaches, the consensus puts the odds of a recession within the next 12 months at only about one-in-four." (This was written October 2012).

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Defined Benefit Plans Total Investments

At June 30, 2012, the PERB's defined benefit plans held total investments of $4.8 billion, an increase of $43 million from fiscal year 2011 investment totals. Below are the schedules of Fiduciary Net Assets and Changes in Fiduciary Net Assets for the defined benefit plans including comparative totals from fiscal year 2011.

Fiduciary Net Assets - Defined Benefit Plans

As of June 30, 2012

(dollars in thousands)

	PERS		JRS		HPORS		SRS	
	2012	2011	2012	2011	2012	2011	2012	2011
Assets:								
Cash and Receivables	$ 50,022	73,164	1,095	1,565	1,383	2,028	3,394	5,743
Securities Lending Collateral	176,225	195,532	2,899	3,143	4,460	4,905	9,701	10,420
Investments	3,879,208	3,873,371	63,797	62,185	98,159	97,020	213,467	206,096
Property and Equipment	11	1	3		3		3	
Intangible Assets	35	105		1		1		1
Total Assets	4,105,501	4,142,173	67,794	66,894	104,005	103,954	226,565	222,260
Liabilities:								
Securities Lending Liability	176,225	195,532	2,899	3,143	4,460	4,905	9,701	10,420
Other Payables	5,064	4,533	136	92	254	200	198	148
Total Liabilities	181,289	200,065	3,035	3,235	4,714	5,105	9,899	10,568
Total Net Assets	$3,924,212	3,942,108	64,759	63,659	99,291	98,849	216,666	211,692

Changes In Fiduciary Net Assets - Defined Benefit Plans

For the year ended June 30, 2012

(dollars in thousands)

	PERS		JRS		HPORS		SRS	
	2012	2011	2012	2011	2012	2011	2012	2011
Additions:								
Contributions	$ 159,917	157,594	2,045	1,980	6,534	6,091	11,721	11,844
Investment Income (Loss)	91,355	715,398	1,517	11,392	2,321	17,911	5,109	37,539
Total Additions	251,272	872,992	3,562	13,372	8,855	24,002	16,830	49,383
Deductions:								
Benefits	252,762	231,223	2,344	2,240	8,223	7,866	10,379	9,237
Refunds	12,308	11,536			68	121	1,271	968
OPEB Expenses	81	78	1		1		1	
Administrative Expenses	3,308	3,249	117	39	121	55	206	121
Miscellaneous Expenses	732	749						
Total Deductions	269,191	246,835	2,462	2,279	8,413	8,042	11,857	10,326
Incr/(Decr) in Net Assets	($17,919)	$626,157	1,100	11,093	442	15,960	4,973	39,057
Prior Period Adjustments	24	45						

Analysis of Individual Systems

PERS-DBRP and Education

The PERS-DBRP provides retirement, disability, and death benefits for covered employees of the State, local governments, certain employees of the Montana University System, and school districts. Member and employer contributions and earnings on investments fund the benefits of the plan. All

GWPORS		MPORS		FURS		VFCA		TOTAL	
2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
2,153	2,950	14,345	14,671	13,988	14,603	1,722	1,704	88,102	116,428
4,441	4,634	10,194	10,831	10,166	10,766	1,156	1,303	219,242	241,534
97,893	91,669	224,417	214,474	223,790	213,009	25,387	25,355	4,826,118	4,783,179
3		3		3		3		32	1
	1		1		1			35	111
104,490	99,254	248,959	239,977	247,947	238,379	28,268	28,362	5,133,529	5,141,253
4,441	4,634	10,194	10,831	10,166	10,766	1,156	1,303	219,242	241,534
414	373	128	104	128	86	99	70	6,421	5,606
4,855	5,007	10,322	10,935	10,294	10,852	1,255	1,373	225,663	247,140
99,635	94,247	238,637	229,042	237,653	227,527	27,013	26,989	4,907,866	4,894,113

GWPORS		MPORS		FURS		VFCA		TOTAL	
2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
7,618	7,721	22,120	20,844	21,201	20,122	1,635	1,596	232,791	227,792
2,388	16,335	5,717	39,175	5,726	38,751	592	4,792	114,725	881,293
10,006	24,056	27,837	60,019	26,927	58,873	2,227	6,388	347,516	1,109,085
3,203	2,863	17,355	17,013	16,519	15,605	2,046	1,938	312,831	287,985
1,241	993	710	1,000	119	128			15,717	14,746
1		1		1		1		88	78
173	88	177	106	162	92	144	81	4,408	3,831
						12	15	744	764
4,618	3,944	18,243	18,119	16,801	15,825	2,203	2,034	333,788	307,404
5,388	20,112	9,594	41,900	10,126	43,048	24	4,354	13,728	801,681
								24	45

new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. The PERS-DBRP and the DB Education Fund have been combined in these comparisons. The PERS-DBRP net assets held in trust for benefits at June 30, 2012 amounted to $3.92 billion, a decrease of $17.9 million (0.5%) from $3.94 billion at June 30, 2011.

Additions to the PERS-DBRP net assets held in trust for benefits include employer, member and state contributions, and investment income. For the fiscal year ended June 30, contributions increased to $159.9 million in fiscal year 2012 from $157.6 million in fiscal year 2011, an increase of $2.3 million (1.5%). Contributions increased due to new members contributing at the higher rate of 7.9%. The plan recognized net investment income of $91 million for the fiscal year ended June 30, 2012, compared with net investment income of $715 million for the fiscal year ended June 30, 2011. The decrease in investment income is a result of the summer of 2011 economic slowdown. Due to political events, investor confidence was undermined having an impact on the stock market.

Deductions from the PERS-DBRP net assets held in trust for benefits primarily include retirement benefits, refunds, and administrative expenses. For fiscal year 2012, benefits amounted to $252.8 million, an increase of $21.5 million (9.3%) from fiscal year 2011. The increase in benefit payments was due to the increase in benefit recipients and the increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA). For fiscal year 2012, refunds amounted to $12.3 million, an increase of $772 thousand (6.7%) from fiscal year 2011. The increase in refunds was due to more people refunding their accounts and the refund amounts being larger dollar amounts. For fiscal year 2012, the costs of administering the plan's benefits amounted to $3.3 million, an increase of $59 thousand (1.8%) from fiscal year 2011. The increase in administrative expenses for fiscal year 2012 was due to the increased costs including personnel and consultation associated with imaging, data cleansing, and the technological development of a new computer application to modernize the administrative processes associated with the PERS-DBRP.

An actuarial valuation of the PERS-DBRP assets and benefit obligations is performed annually. At June 30, 2012, the date of the most recent actuarial valuation, the unfunded actuarial liability does not amortize within the required 30 years. The funded status of the plan decreased to 67% at June 30, 2012 from 70% at June 30, 2011.

The PERS-DBRP actuarial value of assets was less than actuarial liabilities by $1,844 million at June 30, 2012, compared with $1,609 million at June 30, 2011. The increase in the unfunded actuarial liability as of the last actuarial valuation is a result of recognizing past investment losses of $168 million and a total liability gain deducting $31 million from the actuarial liability as a result of the experience of the plan being different from the actuarial assumptions. Legislative changes were introduced for those hired on or after July 1, 2011.Although these changes had no immediate impact on plan costs or liabilities, they will lower the normal cost rate going forward.

JRS

The JRS provides retirement, disability, and death benefits for all Montana judges of the

district courts, justices of the Supreme Court, and the Chief Water Judge or Associate Water Judge. Member and employer contributions and earnings on investments fund the benefits of the plan. The JRS net assets held in trust for benefits at June 30, 2012 amounted to $64.8 million, an increase of $1.1 million (1.7%) from $63.7 million at June 30, 2011.

Additions to the JRS net assets held in trust for benefits include member and employer contributions, and investment income. For the fiscal year ended June 30, 2012, contributions amounted to $2.05 million, an increase of $65 thousand (3.3%) from fiscal year 2011. Contributions increased due to an increase in active members' salaries. The plan recognized net investment income of $1.5 million for the fiscal year ended June 30, 2012, compared with net investment income of $11.4 million for the fiscal year ended June 30, 2011. The decrease in investment income is a result of the summer of 2011 economic slowdown. Due to political events, investor confidence was undermined having an impact on the stock market.

Deductions from the JRS net assets held in trust for benefits mainly include retirement benefits, and administrative expenses. For fiscal year 2012, benefits amounted to $2.3 million, an increase of $104 thousand (4.7%) from fiscal year 2011. The increase in benefits was due to an increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA) or the minimum benefit adjustment for non-GABA retirees. For fiscal year 2012, administrative expenses amounted to $117 thousand, an increase of $78 thousand (200.3%) from fiscal year 2011. The increase in administrative expenses for fiscal year 2012 was due to the increased costs including personnel and consultation associated with imaging, data cleansing, and the technological development of a new computer application to modernize the administrative processes associated with the JRS.

An actuarial valuation of the JRS assets and benefit obligations is performed annually. At June 30, 2012, the date of the most recent actuarial valuation, the years to amortize the unfunded actuarial liability is still zero due to the actuarial surplus. The funded status of the plan decreased to 137% at June 30, 2012 from 141% at June 30, 2011.

The JRS actuarial value of assets was more than actuarial liabilities by $17.0 million at June 30, 2012, compared with a $17.9 million actuarial surplus at June 30, 2011. The decrease in the actuarial surplus as of the last actuarial valuation is due to recognizing past investment losses of $2.5 million and a total liability loss adding $0.5 million from the actuarial liability as a result of the experience of the plan being different from the actuarial assumptions.

HPORS

The HPORS provides retirement, disability, and death benefits for members of the Montana Highway Patrol. Member and employer contributions, a statutory appropriation from the general fund, and earnings on investments fund the benefits of the plan. The HPORS net assets held in trust for benefits at June 30, 2012 amounted to $99.3 million, an increase of $442 thousand (0.4%) from $98.8 million at June 30, 2011.

Additions to the HPORS net assets held in trust for benefits include employer and member contributions, a statutory appropriation from the general fund, and investment income. For the fiscal year ended June 30, contributions increased to $6.5 million in fiscal year 2012 from $6.1 million in fiscal year 2011, an increase

of $443 thousand (7.3%). Contributions increased due to a slight increase in the number of participating members and an increase in total compensation for active members. The plan recognized net investment income of $2.3 million for the fiscal year ended June 30, 2012, compared with net investment income of $17.9 million for the fiscal year ended June 30, 2011. The decrease in investment income is a result of the summer of 2011 economic slowdown. Due to the political events, investor confidence was undermined having an impact on the stock market.

Deductions from the HPORS net assets held in trust for benefits mainly include retirement benefits, refunds, and administrative expenses. For fiscal year 2012, benefits amounted to $8.2 million, an increase of $357 thousand (4.5%) from fiscal year 2011. The increase in benefit payments was due to an increase in benefit recipients and the increases in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA) or the minimum benefit adjustment for non-GABA. For fiscal year 2012, refunds amounted to $68 thousand, a decrease of $53 thousand (43.7%) from fiscal year 2011. The decrease in refunds was due to more refunds being processed at smaller dollar amounts. For fiscal year 2012, administrative expenses were $121 thousand, an increase of $66 thousand (120.6%) from fiscal year 2011. The increase in administrative expenses for fiscal year 2012 was due to the increased costs including personnel and consultation associated with imaging, data cleansing, and the technological development of a new computer application to modernize the administrative processes associated with the HPORS.

An actuarial valuation of the HPORS assets and benefit obligations is performed annually. At June 30, 2012, the date of the most recent actuarial valuation, the years to amortize the unfunded actuarial liability increased to 49.7 years from 48.2 years at June 30, 2011. The funded status of the plan decreased to 58% at June 30, 2012 from 61% at June 30, 2011.

The HPORS actuarial value of assets was less than actuarial liabilities by $71.2 million at June 30, 2012, compared with $60.5 million at June 30, 2011. The increase in the unfunded actuarial liability as of the last actuarial valuation is a result of recognizing past investment losses of $4.2 million and a total liability loss adding $5.6 million from the actuarial liability as a result of the experience of the plan being different from the actuarial assumptions.

SRS

The SRS provides retirement, disability, and death benefits for all Department of Justice criminal investigators hired after July 1, 1993, detention officers hired after July 1, 2005, and all Montana sheriffs. Member and employer contributions and earnings on investments fund the benefits of the plan. The SRS net assets held in trust for benefits at June 30, 2012 amounted to $216.7 million, an increase of $5.0 million (2.3%) from $211.7 million at June 30, 2011.

Additions to the SRS net assets held in trust for benefits include member and employer contributions, and investment income. For the fiscal year ended June 30, contributions decreased to $11.7 million in fiscal year 2012 from $11.8 million in fiscal year 2011, for a decrease of $123 thousand (1.0%). Although the plan saw an increase in active members, the contributions decreased due to retirements of more experienced, higher compensated members; therefore, total compensation reported for active members decreased. The plan recognized net investment income of

$5.1 million for the fiscal year ended June 30, 2012, compared with net investment income of $37.5 million for the fiscal year ended June 30, 2011. The decrease in investment income is a result of the summer of 2011 economic slowdown. Due to political events, investor confidence was undermined having an impact on the stock market.

Deductions from the SRS net assets held in trust for benefits mainly include retirement benefits, refunds, and administrative expenses. For fiscal year 2012, benefits amounted to $10.4 million, an increase of $1.1 million (12.4%) from fiscal year 2011. The increase in benefit payments was due to an increase in benefit recipients and an increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA). For fiscal year 2012, refunds amounted to $1.3 million, an increase of $303 thousand (31.3%) from fiscal year 2011. Refunds increased due to an increase in members refunding their accounts. For fiscal year 2012, administrative expenses amounted to $206 thousand, an increase of $85.2 thousand (70.4%) from fiscal year 2011. The increase in administrative expenses for fiscal year 2012 was due to the increased costs including personnel and consultation associated with imaging, data cleansing, and the technological development of a new computer application to modernize the administrative processes associated with the SRS.

An actuarial valuation of the SRS assets and benefit obligations is performed annually. At June 30, 2012, the date of the most recent actuarial valuation, the unfunded actuarial liability does not amortize within 30 years or less. The funded status of the plan decreased to 74% at June 30, 2012 from 76% at June 30, 2011.

The SRS actuarial value of assets was less than actuarial liabilities by $73.0 million at June 30, 2012, compared with $62.8 million at June 30, 2011. The increase in the unfunded actuarial liability as of the last actuarial valuation is a result of recognizing past investment losses of $8.0 million and a total liability gain deducting $1.8 million from the actuarial liability as a result of the experience of the plan being different from the actuarial assumptions. There was a legislative change to the plan that affects those hired on or after July 1, 2011. Although these changes had no immediate impact on plan costs or liabilities, they will lower the normal cost rate going forward.

GWPORS

The GWPORS provides retirement, disability, and death benefits for game wardens, warden supervisory personnel and state peace officers. Member and employer contributions and earnings on investments fund the benefits of the plan. The GWPORS net assets held in trust for benefits at June 30, 2012, amounted to $99.6 million, an increase of $5.4 million (5.7%) from $94.2 million at June 30, 2011.

Additions to the GWPORS net assets held in trust for benefits include member and employer contributions, and investment income. For the fiscal year ended June 30, contributions decreased to $7.6 million in fiscal year 2012 from $7.7 million in fiscal year 2011, for a decrease of $103 thousand (1.3%). Although the plan saw an increase in active members, the contributions decreased due to retirements of more experienced, higher compensated members; therefore, total compensation reported for active members decreased. The plan recognized net investment income of $2.4 million for the fiscal year ended June 30, 2012, compared with net investment income of $16.3 million for the fiscal year ended June

30, 2011.The decrease in investment income is a result of the summer of 2011 economic slowdown. Due to political events, investor confidence was undermined having an impact on the stock market.

Deductions from the GWPORS net assets held in trust for benefits mainly include retirement benefits, refunds, and administrative expenses. For fiscal year 2012, benefits amounted to $3.2 million, an increase of $340 thousand (11.9%) from fiscal year 2011. The increase in benefit payments was due to the increase in benefit recipients and the increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA). For fiscal year 2012, refunds amounted to $1.2 million, an increase of $248 thousand (25.0%) from fiscal year 2011. The increase in refunds was due to more refunds being processed at larger dollar amounts. For fiscal year 2012, administrative expenses amounted to $173 thousand, an increase of $85 thousand (96.2%) from fiscal year 2011. The increase in administrative expenses for fiscal year 2012 was due to the increased costs including personnel and consultation associated with imaging, data cleansing, and the technological development of a new computer application to modernize the administrative processes associated with the GWPORS.

An actuarial valuation of the GWPORS assets and benefit obligations is performed annually. At June 30, 2012, the date of the most recent actuarial valuation, the unfunded actuarial liability does not amortize within 30 years or less. The funded status of the plan slightly increased to 75.8% at June 30, 2012 from 75.4% at June 30, 2011.

The GWPORS actuarial value of assets was less than actuarial liabilities by $31.2 million at June 30, 2012, compared with $29.4 million at June 30, 2011. The increase in unfunded actuarial liability as of the last actuarial valuation is a result of recognizing past investment losses of $3.0 million and a total liability gain deducting $3.3 million from the actuarial liability as a result of the experience of the plan being different from the actuarial assumptions. The current gain is approximately 2.5% of liabilities, mainly due to salaries not increasing as much as assumed. There was a legislative change to the plan that affects those hired on or after July 1, 2011. Although these changes had no immediate impact on plan costs or liabilities, they will lower the normal cost rate going forward.

MPORS

The MPORS provides retirement, disability, and death benefits for municipal police officers employed by first- and second-class cities, and other cities that adopt the plan. MPORS also has an option for members to participate in a Deferred Retirement Option Plan (DROP). Member, employer and state contributions and earnings on investments fund the benefits of the plan. The MPORS net assets held in trust for benefits at June 30, 2012 amounted to $238.6 million, an increase of $9.6 million (4.2%) from $229.0 million at June 30, 2011.

Additions to the MPORS net assets held in trust for benefits include employer, member, and state contributions, and investment income. For the fiscal year ended June 30, contributions increased to $22.1 million in fiscal year 2012 from $20.8 million in fiscal year 2011, for an increase of $1.3 million (6.1%). Although the plan saw a decrease in active members, the plan saw an increase in contributions due to higher compensated members staying in the plan. The plan recognized net investment income of $5.7 million for the fiscal year ended June 30, 2012, compared with net investment income of $39.2 million for fiscal year ended June

30, 2011. The decrease in investment income is a result of the summer of 2011 economic slowdown. Due to political events, investor confidence was undermined having an impact on the stock market.

Deductions from the MPORS net assets held in trust for benefits mainly include retirement benefits, refunds, and administrative expenses. For fiscal year 2012, benefits amounted to $17.4 million, an increase of $342 thousand (2.0%) from fiscal year 2011. The increase in benefit payments was due to the increase in benefit recipients, and the increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA) or the minimum benefit adjustment for non-GABA retirees. For fiscal year 2012, refunds amounted to $710 thousand, a decrease of $290 thousand (29.0%) from fiscal year 2011. Although there was a slight increase in the number of members who are refunding their accounts, those that refunded had smaller account balances. For fiscal year 2012, administrative expenses were $177 thousand, an increase of $70.7 thousand (66.7%) from fiscal year 2011. The increase in administrative expenses for fiscal year 2012 was due to the increased costs including personnel and consultation associated with imaging, data cleansing, and the technological development of a new computer application to modernize the administrative processes assocated with the MPORS.

An actuarial valuation of the MPORS assets and benefit obligations is performed annually. At June 30, 2012, the date of the most recent actuarial valuation, the years to amortize the unfunded actuarial liability increased to 25.7 years from 25.0 years at June 30, 2011. The funded status of the plan slightly decreased to 54.8% at June 30, 2012 from 55.2% at June 30, 2011.

The MPORS actuarial value of assets was less than actuarial liabilities by $193.2 million at June 30, 2012, compared with $179.7 million at June 30, 2011. The increase in the actuarial liability as of the last actuarial valuation is a result of recognizing past investment losses of $9.0 million and a total liability loss adding $2.9 million to the actuarial liability as a result of the experience of the plan being different from the actuarial assumptions.

FURS

The FURS provides retirement, disability, and death benefits for firefighters employed by first- and second-class cities, other cities and rural fire departments that adopt the plan, and firefighters hired by the Montana Air National Guard (MANG) on or after October 1, 2001. Member, employer, and state contributions, and earnings on investments fund the benefits of the plan. The FURS net assets held in trust for benefits at June 30, 2012, amounted to $237.7 million, an increase of $10.2 million (4.5%) from $227.5 million at June 30, 2011.

Additions to the FURS net assets held in trust for benefits include employer, member, and state contributions, and investment income. For the fiscal year ended June 30, contributions increased to $21.2 million in fiscal year 2012 from $20.1 million in fiscal year 2011, an increase of $1.1 million (5.4%). Contributions increased due to an increase of active members contributing to the plan. The plan recognized net investment income of $5.7 million for the fiscal year ended June 30, 2012, compared with net investment income of $38.8 million for the fiscal year ended June 30, 2011. The decrease in investment income is a result of the summer of 2011 economic slowdown. Due to political events, investor confidence was undermined having an impact on the stock market.

Deductions from the FURS net assets held in trust for benefits mainly include retirement benefits, refunds, and administrative expenses. For fiscal year 2012, benefits amounted to $16.5 million, an increase of $914 thousand (5.9%) from fiscal year 2011. The increase in benefit payments was due to the increase in benefit recipients, and the increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA) or the minimum benefit adjustment for non-GABA retirees. For fiscal year 2012, refunds amounted to $119 thousand, a decrease of $9 thousand (7.1%) from fiscal year 2011. Although more people refunded their accounts, those that refunded had smaller account balances. For fiscal year 2012, administrative expenses were $162 thousand, an increase of $70 thousand (76.3%). The increase in administrative expenses for fiscal year 2012 was mainly due to the increased costs including personnel and consultation associated with imaging, data cleansing, and the technological development of a new computer application to modernize the administrative processes associated with the FURS.

An actuarial valuation of the FURS assets and benefit obligations is performed annually. At June 30, 2012, the date of the most recent actuarial valuation, the years to amortize the unfunded actuarial liability increased to 16.4 years from 16.0 years at June 30, 2011. The funded status of the plan decreased slightly to 61.8% at June 30, 2012 from 61.9% at June 30, 2011.

The FURS actuarial value of assets was less than actuarial liabilities by $144.1 million at June 30, 2012, compared with $135.2 million at June 30, 2011. The increase in unfunded actuarial liability as of the last actuarial valuation is a result of recognizing past investment losses of $8.6 million and a total liability loss adding $2.0 million to the actuarial liability as a result of the experience of the plan being different from the actuarial assumptions.

VFCA

The VFCA provides retirement, disability, and death benefits for volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas. State contributions and earnings on investments fund the benefits of the plan. The VFCA net assets held in trust for benefits at June 30, 2012 amounted to $27.01 million, an increase of $24 thousand (0.1%) from $26.99 million at June 30, 2011.

Additions to the VFCA net assets held in trust for benefits include state contributions, and investment income. For the fiscal year ended June 30, contributions increased to $1.64 million in fiscal year 2012 from $1.60 million in fiscal year 2011, an increase of $39 thousand (2.5%). Contributions increased because there was an increase in the fire insurance premium taxes distributed to the VFCA through the general fund. The plan recognized net investment income of $592 thousand for the fiscal year ended June 30, 2012, compared with net investment income of $4.8 million for the fiscal year ended June 30, 2011. The decrease in investment income is a result of the summer of 2011 economic slowdown. Due to political events, investor confidence was undermined having an impact on the stock market.

Deductions from the VFCA net assets held in trust for benefits include retirement benefits, administrative expenses, and supplemental insurance payments. For fiscal year 2012, benefits amounted to $2.05 million, an increase of $108.2 thousand (5.6%) from fiscal year 2011. The increase in benefit payments was due

to an increase in benefit recipients. For fiscal year 2012, administrative expenses amounted to $144 thousand, an increase of $63 thousand (77.7%) from fiscal year 2011. The increase in administrative expenses for fiscal year 2012 was due to the increased costs including personnel and consultation associated with imaging, data cleansing, and the technological development of a new computer application to modernize the administrative processes associated with the VFCA For fiscal year 2012, supplemental insurance payments amounted to $12 thousand, a decrease of $3 thousand from fiscal year 2011.

An actuarial valuation of the VFCA assets and benefit obligations is performed annually. At June 30, 2012, the date of the most recent actuarial valuation, the years to amortize the unfunded actuarial liability increased to 9.3 years from 8.8 years at June 30, 2011 and the funded status of the plan decreased to 73% at June 30, 2012 from 74% at June 30, 2011.

The VFCA actuarial value of assets was less than actuarial liabilities by $9.61 million at June 30, 2012, compared with $9.01 million at June 30, 2011. The increase in unfunded actuarial liability as of the last actuarial valuation is a result of recognizing past investment losses of $1.2 million and a total liability loss adding $144 thousand from the actuarial liability as a result of the experience of the plan being different from the actuarial assumptions.

Actuarial Valuations and Funding Progress

An experience study was performed during fiscal year 2010 for the six year period July 1, 2003 to June 30, 2009. The experience study resulted in several changes to the actuarial assumptions and implementation of new actuarial factors. An actuarial valuation of each of the defined benefit plans is performed annually. The most recent actuarial valuation was performed for fiscal year ended June 30, 2012.

The PERB's funding objective is to meet long-term benefit obligations through investment income and contributions. Accordingly, the collection of employer and member contributions and the income from investments provide the cash flow needed to finance future retirement benefits. The Annual Required Contribution (ARC) is critical to the defined benefit plans' funding. It is the present value of the total cost of post-employment benefits earned to date by employees that is assigned to a given period and serves as a measurement of those pension costs for accounting and financial reporting purposes. The ARC has not been met in the past four years for the PERS-Defined Benefit Retirement Plan (PERS-DBRP), the Game Wardens' and Peace Officers' Retirement System (GWPORS), and the Sheriffs' Retirement System (SRS) and was not met for the past two years for the Highway Patrol Officers' Retirement System (HPORS). Investment earnings are also critical to the defined benefit plans' funding; if there are investment losses this deteriorates the plans' funding. Market losses were experienced in fiscal years 2001, 2002 and fiscal years 2008 and 2009. Positive returns were experienced in fiscal years 2003 through 2007 and fiscal years 2010 through 2012. The funding status decreased for all defined benefit plans in the latest valuation, with the exception of GWPORS that experienced a slight increase. Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is 30 years or less. Montana's Constitution requires the public retirement plans to be funded on an actuarially sound basis.

All systems were actuarially funded within 30 years in 2007 and 2008. This was due to positive investment returns, recognition of all losses experienced in 2001 and 2002, and the $25 million cash infusion in 2006 from the State of Montana in the PERS-DBRP. The impact of the negative investment returns in 2008 and 2009 resulted in the PERS-DBRP, GWPORS, and SRS, not amortizing within the required 30 years.

Legislation from the 2007 session either increased employer contribution rates or decreased guaranteed annual benefit adjustment (GABA) for new hires or both effective July 1, 2007. Effective July 1, 2009, PERS-DBRP and SRS received the last increase of employer contributions under the 2007 Legislative House Bill 131.

According to the PERB's June 30, 2012 actuarial valuations, the unfunded liability in PERS-DBRP, GWPORS and SRS does not amortize and HPORS doesn't amortize within 30 years.

Funding ratios range from a high of 137% (JRS) to a low of 55% (MPORS). The Schedule of Funding Progress shows the funding for the last six fiscal years. The table also shows the amount by which actuarial assets exceeded or fell short of actuarial liabilities. The actuary performs a smoothing of investment gains or losses over a period of four years. At June 30, 2012, the actuarial value of assets of all plans was less than the market value of assets by $125.8 million due to a positive 2.23% market return in fiscal year 2012. The current smoothing reserve has a negative balance which will be reflected in the actuarial value of assets again in fiscal year 2013.

Defined Contribution Plans

The PERB administers two defined contribution plans: The Public Employees' Retirement System-Defined Contribution Retirement Plan (PERS-DCRP) and the Deferred Compensation (457) Plan. The schedules of Fiduciary Net Assets and Changes in Fiduciary Net Assets for the two defined contribution plans including comparative totals from fiscal year 2011.

PERS-DCRP

The PERS-DCRP is established under section 401(a) of the Internal Revenue Code and Title 19, chapters 2 & 3 of the Montana Code Annotated (MCA). This plan provides retirement, disability and death benefits for plan members. This plan was available to all active PERS members effective July 1, 2002. All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. The plan member and employer contributions and earnings on investments fund the benefits of the plan. The PERS-DCRP net assets held in trust for benefits at June 30, 2012 amounted to $87.2 million, an increase of $8.4 million (10.6%) from $78.8 million at June 30, 2011.

Additions to the PERS-DCRP net assets held in trust for benefits include contributions and investment income. For the fiscal year ended June 30, contributions increased to $11.1 million in fiscal year 2012 from $10.8 million in fiscal year 2011, an increase of $309 thousand (2.9%). Contributions increased due to an increase in the total compensation reported as a result of an increase in active participants. The plan recognized net investment income of $2.4 million for fiscal year ended 2012, compared with net investment income of

$12.7 million in fiscal year 2011. The decrease in investment income is a result of the summer of 2011 economic slowdown. Due to political events, investor confidence was undermined having an impact on the stock market.

Deductions from the PERS-DCRP net assets include disability benefits, member distributions, administrative expenses, and miscellaneous expenses. For fiscal year 2012, disability benefits amounted to $27 thousand, compared to $19 thousand in fiscal year 2011. For fiscal year 2012, distributions amounted to $4.0 million, an increase of $354 thousand (9.8%). The increase in distributions was due to more defined contribution members taking periodic or lump sum distributions and IRS permitted rollovers. For fiscal year 2012, the costs of administering the plan amounted to $484 thousand, an increase of $67 thousand (16.0%) from fiscal year 2011. The increase in administrative expenses for fiscal year 2012 was due to the increased costs including personnel and consultation associated with imaging, data cleansing, and the technological development of a new computer application to modernize the administrative processes associated with the PERS-DCRP. Miscellaneous expenses increased from $299 thousand in fiscal year 2011 to $313 thousand in fiscal year 2012, an increase of $14 thousand (4.8%) from fiscal year 2011. Miscellaneous expenses are administrative fees charged by the vendors based on account balances. The increase in miscellaneous expenses was due to the increase in plan participant accounts and an increase in the average account balance.

Deferred Compensation (457) Plan

The Deferred Compensation Plan is established under section 457 of the Internal Revenue Code and Title 19, chapter 50 of the Montana Code Annotated (MCA). This plan is a voluntary supplemental retirement savings plan for those who choose and are eligible to participate. The Deferred Compensation Plan is funded by contributions and by investment earnings. The Deferred Compensation net assets held in trust for benefits at June 30, 2012 amounted to $377.7 million, an increase of $17.1 million (4.7%) from $360.6 million at June 30, 2011.

Additions to the Deferred Compensation Plan net assets held in trust for benefits include contributions and investment income. For fiscal year 2012, contributions increased to $20.1 million from $19.6 million in fiscal year 2011, an increase of $515 thousand (2.6%). Contributions increased due to an increase in the amount of money deferred to the plan and the addition of three contracting employers participating in the plan for an overall increase in membership. The plan recognized net investment income of $13.9 million for fiscal year 2012, compared with net investment income of $36.9 million for fiscal year 2011. The decrease in investment income is a result of the summer of 2011 economic slowdown. Due to political events, investor confidence was undermined having an impact on the stock market.

Deductions from the Deferred Compensation Plan net assets mainly include member and beneficiary distributions, administrative expense, and miscellaneous expenses. For fiscal year 2012, distributions amounted to $15.6 million, an increase of $221 thousand (1.4%) from $15.4 million at June 30, 2011. The increase in distributions was due to more deferred compensation members taking distributions. The administrative expenses increased from $283 thousand in fiscal year 2011 to $353 thousand in fiscal year 2012, an increase of $70 thousand (24.6%) from fiscal year 2011. The increase in administrative expenses for fiscal year 2012 was due to

the increased costs including personnel and consultation associated with imaging, data cleansing, and the technological development of a new computer application to modernize the administrative processes associated with the Deferred Compensation Plan. Miscellaneous expenses, increased from $1.0 million in fiscal year 2011 to $1.2 million in fiscal year 2012, an increase of $179 thousand (17.8%) from fiscal year 2011. Miscellaneous expenses are administrative fees charged by the vendors based on account balances. The increase in miscellaneous expenses was due to the increase in plan participant accounts and an increase in the average account balance.

Fiduciary Net Assets - Defined Contribution Plans

As of June 30, 2012

(dollars in thousands)

	PERS-DCRP		457-PLAN		TOTAL	
	2012	2011	2012	2011	2012	2011
Assets:						
Cash and Receivables	$ 4,011	3,645	1,775	961	5,786	4,606
Securities Lending Collateral	7	44	3	13	10	57
Investments	83,326	75,298	376,272	360,009	459,598	435,307
Property and Equipment	3		3		6	
Intangible Assets	1	3		1	1	4
Total Assets	87,347	78,990	378,053	360,984	465,401	439,974
Liabilities:						
Securities Lending Collateral	7	44	3	13	10	57
Other Payables	183	158	375	351	558	509
Total Liabilities	190	202	378	364	568	566
Total Net Assets	$ 87,158	78,788	377,675	360,620	464,833	439,408

Changes In Fiduciary Net Assets - Defined Contribution Plans

For the year ended June 30, 2012

(dollars in thousands)

	PERS-DCRP		457-PLAN		TOTAL	
	2012	2011	2012	2011	2012	2011
Additions:						
Contributions	$ 11,071	10,762	20,074	19,559	31,145	30,321
Investment Income (Loss)	2,352	12,698	13,913	36,907	16,265	49,605
Total Additions	13,423	23,460	33,987	56,466	47,410	79,926
Deductions:						
Benefits	27	19			27	19
Distributions	3,973	3,619	15,637	15,416	19,610	19,035
OPEB Expenses	9	9	5	5	14	14
Administrative Expenses	484	417	353	283	837	700
Miscellaneous Expenses	313	299	1,186	1,007	1,499	1,306
Total Deductions	4,806	4,363	17,181	16,711	21,987	21,074
Incr/(Decr) in Net Assets	$ 8,617	19,097	16,806	39,755	25,423	58,852
Prior Period Adjustments	(247)		247			

Public Employees' Retirement Board

A Component Unit of the State of Montana

Statement of Fiduciary Net Assets - Pension Trust Funds

as of June 30, 2012

	PERS-DBRP	JRS	HPORS	SRS	GWPORS
Assets					
Cash and Short-term Investments	$ 39,780,937	923,109	1,070,951	2,854,904	1,740,266
Securities Lending Collateral (Note A6)	176,224,929	2,899,392	4,460,305	9,700,622	4,440,808
Receivables					
Interest	5,318,516	87,523	134,562	292,848	134,099
Accounts Receivable	4,465,062	83,613	177,122	246,263	278,290
Due from Other Funds	408,980				
Due from Primary Government					
Notes Receivable	48,108				
Total Receivables	10,240,666	171,136	311,684	539,111	412,389
Investments, at fair value (Note A6)					
Montana Domestic Equity Pool (MDEP)	1,455,188,392	23,932,783	36,839,692	80,065,282	36,685,427
Retirement Fund Bond Pool (RFBP)	974,139,458	16,030,598	24,652,578	53,636,097	24,510,464
Montana International Pool (MTIP)	621,886,728	10,223,579	15,732,119	34,234,117	15,697,128
Montana Private Equity Pool (MPEP)	512,314,695	8,428,346	12,957,630	28,178,933	12,939,604
Montana Real Estate Pool (MTRP)	315,092,832	5,167,773	7,963,159	17,308,005	8,036,273
Structured Investment Vehicles (SIV)	586,117	13,751	13,728	44,026	23,941
Defined Contributions Fixed Investments					
Defined Contributions Variable Investments					
Deferred Compensation Life Insurance					
Total Investments	3,879,208,222	63,796,830	98,158,906	213,466,460	97,892,837
Capital Assets					
Property and Equipment, at cost,					
net of Accumulated Depreciation (Note A2)	11,307	3,168	2,689	3,169	3,168
Intangible Assets, at cost,					
net of Amortization Expense (Note A2)	35,120	292	292	292	292
Total Capital Assets	46,427	3,460	2,981	3,461	3,460
Total Assets	4,105,501,181	67,793,927	104,004,827	226,564,558	104,489,760
Liabilities					
Securities Lending Liability	176,224,929	2,899,392	4,460,305	9,700,622	4,440,808
Accounts Payable	820,070	40,865	34,688	61,012	59,624
Due to Other Funds	379,023	8,015	28,620	96,988	63,438
Deferred Revenue	3,261,548	78,856	181,303	26,287	278,748
Compensated Absences	236,114	7,061	5,993	7,061	7,061
OPEB Implicit Rate Subsidy LT	367,316	1,232	2,673	6,984	5,049
Total Liabilities	181,289,000	3,035,421	4,713,582	9,898,954	4,854,728
Net Assets Held in Trust for Pension Benefits	$ 3,924,212,181	64,758,506	99,291,245	216,665,604	99,635,032

The notes to the financial statements are an integral part of this statement.

			Defined Benefit Pension Plans	Defined Contribution Plans			
			Total Defined Benefit			Total Defined Contribution	Total Pension Trust Funds
MPORS	FURS	VFCA	Pension Plans	PERS-DCRP	457 Plan	Plans	2012
1,561,874	1,690,512	1,685,905	51,308,458	3,558,330	1,396,151	4,954,481	56,262,939
10,194,142	10,166,188	1,155,587	219,241,973	7,258	2,903	10,161	219,252,134
307,771	306,798	34,909	6,617,026	888	359	1,247	6,618,273
201,342	193,663	1,815	5,647,170	84,206	378,381	462,587	6,109,757
			408,980	366,842		366,842	775,822
12,273,769	11,797,130		24,070,899				24,070,899
			48,108				48,108
12,782,882	12,297,591	36,724	36,792,183	451,936	378,740	830,676	37,622,859
84,109,165	83,939,540	9,516,059	1,810,276,340				1,810,276,340
56,430,996	56,219,461	6,372,511	1,211,992,163				1,211,992,163
35,975,360	35,868,861	4,066,285	773,684,177				773,684,177
29,657,240	29,560,709	3,347,888	637,385,045				637,385,045
18,220,028	18,175,105	2,056,894	392,020,069				392,020,069
23,877	26,464	27,624	759,528	56,946	22,779	79,725	839,253
				9,500,087	246,314,689	255,814,776	255,814,776
				73,768,774	129,921,919	203,690,693	203,690,693
					12,316	12,316	12,316
224,416,666	223,790,140	25,387,261	4,826,117,322	83,325,807	376,271,703	459,597,510	5,285,714,832
2,837	2,800	2,579	31,717	2,579	3,058	5,637	37,354
292	292		36,872	1,226		1,226	38,098
3,129	3,092	2,579	68,589	3,805	3,058	6,863	75,452
248,958,693	247,947,523	28,268,056	5,133,528,525	87,347,136	378,052,555	465,399,691	5,598,928,216
10,194,142	10,166,188	1,155,587	219,241,973	7,258	2,903	10,161	219,252,134
36,588	40,607	33,262	1,126,716	114,047	328,647	442,694	1,569,410
78,762	65,610	55,367	775,823				775,823
411	10,777		3,837,930				3,837,930
6,323	6,241	5,748	281,602	26,877	19,168	46,045	327,647
6,014	4,941	4,871	399,080	42,003	27,638	69,641	468,721
10,322,240	10,294,364	1,254,835	225,663,124	190,185	378,356	568,541	226,231,665
238,636,453	237,653,159	27,013,221	4,907,865,401	87,156,951	377,674,199	464,831,150	5,372,696,551

Public Employees' Retirement Board

A Component Unit of the State of Montana

Statement of Changes in Fiduciary Net Assets - Pension Trust Funds

for the year ended June 30, 2012

	PERS-DBRP	JRS	HPORS	SRS	GWPORS
Additions					
Contributions (Note C)					
Employer	$ 79,919,031	1,598,343	4,965,952	6,027,657	3,470,224
Plan Member	79,261,405	446,605	1,271,989	5,693,503	4,143,480
Membership Fees	10				
Interest Reserve Buyback	70,955		26,587	133	4,694
Retirement Incentive Program	128,352				
Miscellaneous Revenue	1,290				
State Contributions	535,506		269,335		
Nonvested Member Forfeitures					
Total Contributions	159,916,549	2,044,948	6,533,863	11,721,293	7,618,398
Investments (Note A6)					
Net Appreciation (Depreciation)					
in Fair Value of Investments	(4,403,263)	127,070	20,089	689,189	631,019
Interest	99,015,799	1,442,672	2,382,826	4,596,923	1,838,062
Dividends	16,850,207	274,621	424,435	916,609	413,796
Investment Expense	(21,334,520)	(347,590)	(537,199)	(1,160,438)	(525,501)
Net Investment Income	90,128,223	1,496,773	2,290,151	5,042,283	2,357,376
Securities Lending Income					
Securities Lending Income	1,580,638	25,777	39,788	86,051	38,866
Securities Lending Rebate and Fees	(353,396)	(5,762)	(8,896)	(19,234)	(8,687)
Net Securities Lending Income	1,227,242	20,015	30,892	66,817	30,179
Total Net Investment Income	91,355,465	1,516,788	2,321,043	5,109,100	2,387,555
Total Additions	251,272,014	3,561,736	8,854,906	16,830,393	10,005,953
Deductions (Note C)					
Benefits	252,762,398	2,344,170	8,223,433	10,379,424	3,202,597
Refunds/Distributions	11,990,973		64,537	1,248,000	1,227,048
Refunds to Other Plans	316,776		2,644	22,630	15,042
Transfers to DCRP	609,358				
Transfers to ORP	122,882				
Supplemental Insurance Payments					
OPEB Expenses	80,847	725	616	725	725
Administrative Expenses	3,307,974	117,124	121,349	206,232	172,648
Miscellaneous Expenses					
Total Deductions	269,191,208	2,462,019	8,412,579	11,857,011	4,618,060
Net Increase (Decrease)	(17,919,194)	1,099,717	442,327	4,973,382	5,387,893
Net Assets Held in Trust for Pension Benefits					
Beginning of Year	3,942,107,754	63,658,789	98,848,918	211,692,222	94,247,139
Prior Period Adjustment	23,621				
End of Year	$ 3,924,212,181	64,758,506	99,291,245	216,665,604	99,635,032

The notes to the financial statements are an integral part of this statement.

			Defined Benefit Pension Plans			Defined Contribution Plans	
			Total Defined Benefit			Total Defined Contribution	Total Pension Trust Funds
MPORS	FURS	VFCA	Pension Plans	PERS-DCRP	457 Plan	Plans	2012
6,054,821	5,281,336		107,317,364	4,136,846	65,279	4,202,125	111,519,489
3,790,744	4,099,903		98,707,629	6,317,882	19,381,269	25,699,151	124,406,780
			10				10
999	22,712		126,080				126,080
			128,352				128,352
			1,290	201,852	627,503	829,355	830,645
12,273,769	11,797,130	1,635,400	26,511,140				26,511,140
				414,627		414,627	414,627
22,120,333	21,201,081	1,635,400	232,791,865	11,071,207	20,074,051	31,145,258	263,937,123
159,596	426,984	(139,123)	(2,488,439)	719,662	5,572,214	6,291,876	3,803,437
5,743,541	5,482,311	752,385	121,254,519	1,822,608	8,879,487	10,702,095	131,956,614
970,639	967,306	112,623	20,930,236				20,930,236
(1,227,287)	(1,221,448)	(142,070)	(26,496,053)	(191,491)	(538,860)	(730,351)	(27,226,404)
5,646,489	5,655,153	583,815	113,200,263	2,350,779	13,912,841	16,263,620	129,463,883
90,946	90,620	10,583	1,963,269	1,044	366	1,410	1,964,679
(20,335)	(20,261)	(2,366)	(438,937)	(206)	(72)	(278)	(439,215)
70,611	70,359	8,217	1,524,332	838	294	1,132	1,525,464
5,717,100	5,725,512	592,032	114,724,595	2,351,617	13,913,135	16,264,752	130,989,347
27,837,433	26,926,593	2,227,432	347,516,460	13,422,824	33,987,186	47,410,010	394,926,470
17,354,933	16,519,146	2,046,233	312,832,334	27,310		27,310	312,859,644
707,283	118,878		15,356,719	3,973,069	15,636,906	19,609,975	34,966,694
3,353			360,445				360,445
			609,358				609,358
			122,882				122,882
		12,600	12,600				12,600
651	641	591	85,521	9,071	5,040	14,111	99,632
176,675	162,189	143,961	4,408,152	483,594	352,703	836,297	5,244,449
				313,278	1,185,782	1,499,060	1,499,060
18,242,895	16,800,854	2,203,385	333,788,011	4,806,322	17,180,431	21,986,753	355,774,764
9,594,538	10,125,739	24,047	13,728,449	8,616,502	16,806,755	25,423,257	39,151,706
229,041,915	227,527,420	26,989,174	4,894,113,331	78,787,666	360,620,227	439,407,893	5,333,521,224
			23,621	(247,217)	247,217		23,621
238,636,453	237,653,159	27,013,221	4,907,865,401	87,156,951	377,674,199	464,831,150	5,372,696,551

Public Employees' Retirement Board

A Component Unit of the State of Montana

Notes to the Financial Statements

for the Fiscal Year Ended June 30, 2012

The Public Employees' Retirement Board (PERB) administers ten retirement plans and the related member education funds. The retirement plans are eight defined benefit plans and two defined contribution plans. The defined benefit retirement plans are the Public Employees' Retirement System (PERS-DBRP), Judges' Retirement System (JRS), Highway Patrol Officers' Retirement System (HPORS), Sheriffs' Retirement System (SRS), Game Wardens' and Peace Officers' Retirement System (GWPORS), Municipal Police Officers' Retirement System (MPORS), Firefighters' Unified Retirement System (FURS), and the Volunteer Firefighters' Compensation Act (VFCA). The defined contribution retirement plans are the Public Employees' Retirement System (PERS-DCRP) and the Deferred Compensation (IRC §457) Plan.

The PERS-DCRP was implemented July 1, 2002. All new PERS members, after July 1, 2002, have a 12-month window to file an irrevocable plan choice election. PERS members are provided education to help them decide between participation in the Defined Benefit Retirement Plan (PERS-DBRP) or the Defined Contribution Retirement Plan (PERS-DCRP). If members are employees of the university system they have a third choice, the Optional Retirement Program (ORP). Further education is provided for the members who choose the PERS-DCRP, including information on investment choices.

The PERB began administering the Deferred Compensation (457) Plan on July 1, 1999. The Deferred Compensation Plan is available to all employees of the State, the Montana University System and contracting political subdivisions. The Montana Public Employee Retirement Administration (MPERA) as a state agency, participates as an employer in the PERS-DBRP, PERS-DCRP and the Deferred Compensation Plan.

The assets of each plan are maintained separately, including member education funds. The assets may be used only for the payment of benefits to the members and administrative expenses of the appropriate plan, in accordance with the terms of each plan as prescribed in Title 19 of the Montana Code Annotated (MCA). The financial statements are presented by combining the PERS-DBRP and the DBRP Education Fund and by combining the PERS-DCRP, the DCRP Education Fund and the DCRP Disability Fund. A presentation of each individual fund is shown at the end of the financial section.

A. Summary of Significant Accounting Policies

1. Basis of Accounting

The PERB is a discretely presented component unit Pension Trust Fund of the State of Montana financial reporting entity. The MPERA, staff of the PERB, prepares the accounting records and financial statements for the fiduciary pension trust funds using the accrual basis of accounting. For the pension trust funds, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized

when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period in which they are earned and become measurable. Benefits and refunds/distributions are recognized in the accounting period in which they are due and payable. Expenses are recognized in the period incurred. Administrative expenses are financed through investment earnings on the pension trust fund for the defined benefit plans. Interfund receivables and payables exist at year-end for defined benefit administrative expenses that are accounted for within PERS-DBRP and allocated to the other defined benefit plans at year-end. Costs specifically related to the MPERAtiv program are charged directly to the individual plans.

The fiscal year 2012 financial statements contain a prior period adjustment to the PERS-DBRP for prior years' employer reporting errors where members should have been reported but were not. The prior period adjustment to the financial statements of the PERS-DCRP and Deferred Compensation Plan is for prior years' fee revenue that was allocated incorrectly to each plan.

Participants of the PERS-DCRP are charged, on a quarterly basis, a flat fee plus a basis point fee based on their individual account balances. The record keeper, Great-West Retirement Services (Great-West), withholds payment of Great-West's contractual expenses and the remaining fees are remitted to the PERB to cover the PERB's administrative expenses of the plan. The fees remitted to the PERB are recorded as Miscellaneous Revenue in the financial statements.

Participants of the Deferred Compensation Plan are charged, on a quarterly basis, a flat fee plus a basis point fee based on their individual account balances. The record keeper, Great-West, withholds payment of Great-West's contractual expenses and the remaining fees are remitted to the PERB to cover the PERB's administrative expenses of the plan. The fees remitted to the PERB are recorded as Miscellaneous Revenue in the financial statements.

2. Capital Assets and Equipment Used in Operations

Assets under $5,000 are expensed in the year purchased. Assets valued at $5,000 or more are recorded at cost less straight-line depreciation over the estimated useful life of five to ten years. Assets valued at $100,000 or more are recorded at cost less straight-line depreciation over the estimated useful life of five to ten years. Equipment consists of two data cleansing servers purchased this past year for the data cleansing project which is part of the MPERAtiv program. Capital assets include the web-based employer reporting software and the MPERA website.

The accumulated depreciation on the web-based employer reporting system is $1,668,688 as of June 30, 2012 and the carrying value as of June 30, 2012 is $32,922. The accumulated depreciation on the MPERA website as of June 30, 2012 is $110,473 and the carrying value is $5,177.

MPERA is embarking on a program over three to five years where several phases will be implemented to improve operational efficiency, provide better service to our plan members and other customers, and address disaster recovery concerns

surrounding our paper driven processes. The program, appropriately named MPERAtiv includes the implementation of a document imaging system, a data cleansing project, and implementation of a new member web access public pension line of business software application. The MPERAtiv program was prompted by members expectations of web accessed services and the age and limitations of our systems that are increasingly difficult to maintain in addition to recommendations from the State's Information Technology Division (SITSD) to move away from the old Integrated Database Management System (IDMS) platform. MPERA's IDMS platforms were put in place in 1985 (retiree), 1993 (active), and 2006 (volunteer fire). The new line of business application will replace the IDMS platform as well as the Web Reporting Oracle application that was implemented in two phases between 2002 (payroll) and 2004 (457).

3. Operating Lease

Operating leases are rental agreements where the payments are chargeable as rent and recorded as administrative expenses. The MPERA entered into a 10-year lease for office space in November 2003, at the location of 100 North Park Avenue, Helena, MT. The lease is payable monthly and includes inflationary adjustments over the period of the lease.

4. Funded Status And Funding Progress

The funded status of the eight defined benefit retirement plans, as of the most recent actuarial valuation date, appear in the table at the bottom of the page.

Funded Status as of June 30, 2012

(dollar amounts are in thousands)

System	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
PERS-DBRP	$3,816,920	$5,661,281	$1,844,361	67.42%	$1,081,288	170.57%
JRS	63,195	46,190	(17,005)	136.81%	6,193	-274.60%
HPORS	96,655	167,824	71,169	57.59%	13,618	522.62%
SRS	211,535	284,559	73,024	74.34%	59,583	122.56%
GWPORS	97,691	128,927	31,236	75.77%	38,317	81.52%
MPORS	234,025	427,257	193,232	54.77%	41,745	462.89%
FURS	233,121	377,211	144,090	61.80%	36,177	398.30%
VFCA	26,531	36,146	9,615	73.40%	N/A*	N/A*

*Covered payroll is not applicable to VFCA because members are unpaid volunteers.

The net Funded Ratio decreased in fiscal year 2012 for all the retirement plans with the exception of the increase in GWPORS.

Funded Ratio	6/30/2012	6/30/2011
PERS-DBRP	67%	70%
JRS	137%	141%
HPORS	58%	61%
SRS	74%	76%
GWPORS	76%	75%
MPORS	55%	55%
FURS	62%	62%
VFCA	73%	74%

The required supplementary information (RSI), following the notes to the financial statements, presents similar information but uses a multi-year format to show trend information. These trends indicate whether the actuarial values of the plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities.

Remaining Amortization Period	
PERS-DBRP	Does not amortize
JRS	N/A*
HPORS	49.7 years
SRS	Does not amortize
GWPORS	Does not amortize
MPORS	25.7 years
FURS	16.4 years
VFCA	9.3 years
* Currently JRS has a surplus	

Merit Projected Salary Increases	
PERS-DBRP	0% - 6%
JRS	0%
HPORS	0% - 7.3%
SRS	0% - 7.3%
GWPORS	0% - 7.3%
MPORS	0% - 7.3%
FURS	0% - 7.3%
VFCA	N/A

The information that follows is general and applicable to each defined benefit plan, except the VFCA's amortization method is a level dollar amount instead of a level percent of payroll like the other plans.

General to each DB Retirement System	
Valuation date	June 30, 2012
Actuarial cost method	Entry Age
Amortization method, except VFCA	Level percent payroll, open
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases:	
General Wage Growth*	4.00%
*includes inflation rate at	3.00%
Guaranteed annual benefit adjustment (GABA), except VFCA	3% after 1 year. Effective July, 1, 2007, 1.5% GABA for new hires of PERS, SRS and GWPORS.

The minimum benefit adjustment (non-GABA) only affects four systems: JRS, HPORS, MPORS and FURS. A table showing the non-GABA adjustment for these systems follows on the top of the next page.

Minimum Benefit Adjustment (non-GABA)	
Retiree benefit adjustments	
JRS	Biennial increase to salary of active member in like position
HPORS	2% per year of service of probationary officer's base pay, not to exceed 5% increase over previous benefit
MPORS	50% of newly confirmed officer's pay
FURS	50% of newly confirmed officer's pay

5. Other Post-Employment Benefits (OPEB)

The State of Montana implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions.* This statement requires the disclosure of employer liability for retiree medical subsidies and other post-employment benefits. The OPEB liability at June 30, 2012 and June 30, 2011 was $468,721 and $369,090, respectively.

Plan Descriptions: MPERA employees and dependents are eligible to receive health care through the State Group Benefits Plan administered by the Montana Department of Administration. In accordance with section 2-18-704, MCA, the State provides optional post-employment medical, vision, and dental health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. For GASB Statement No. 45 reporting, the State Group Benefits Plan is considered an agent multiple-employer plan and MPERA is considered to be a separate employer participating in the plan.

In addition to the employee benefits, the following post-employment benefits are provided. Montana Department of Administration established retiree medical premiums varying between $285 and $982 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Retirees pay 100% of the premiums for medical, dental, and vision. Administratively established monthly dental premiums vary between $34.90 and $59.36; monthly vision premiums vary between $7.64 and $22.26; both premiums vary depending on the coverage selected. Basic life insurance in the amount of $14,000 is provided until age 65 at a cost of $1.90 per month. The State Benefit Plans reimburse all validated medical claims net of member obligatons (annual deductibles and coinsurance of the members' selected medical plan). Dental claims are reimbursed at 50% to 100% of the allowable charges, depending on the services provided. The State acts as secondary payer for retired Medicare-eligible claimants.

Benefits Not Included in the Actuarial Valuation: The dental and vision benefits are fully-insured and retirees pay 100% of the cost for both dental and vision; therefore, no liability for these benefits is calculated in the actuarial valuation. Continuation of the life insurance benefit is not available as an employer-provided group insurance benefit for retirees; therefore, no liability for life insurance is calculated in this valuation.

Funding Policy: The following estimates were prepared based on an actuarial

valuation prepared as of the year ending December 31, 2011 for the Department of Administration and the resulting State of Montana Actuarial Valuation of Other Post-Employment Benefits Plan (plan) contains the MPERA data and is available through the address below.

Montana Department of Administration
State Accounting Division
Room 255, Mitchell Bldg
125 N Roberts St
PO Box 200102
Helena, MT 59620-0102

GASB Statement No. 45 requires the plan's participants, including MPERA, to report each year the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year of retiree health care costs and amortize any unfunded actuarial liablities (or funding excess) over a period not to exceed 30 years. The 2011 ARC is calculated for all the State plan's participants and then individually allocated to individual participants. MPERA's 2012 allocated portion of the ARC is estimated at \$99,632 and is based on the plan's current ARC rate of 6.32% of participants' annual covered payroll. MPERA's 2012 ARC is equal to an annual amount required each year to fully fund the liability over 30 years.

Actuarial Methods and Assumptions: Projections of benefts for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in the actuarial accrued liablities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information (RSI) following the notes to the statements, presents information that shows the actuarial value of plan assets and liabilities. In the January 1, 2011, actuarial valuation date, the projected unit credit funding method is used. The actuarial assumptions did not include an investment rate of return since no assets meet the definition of plan assets under GASB Statements No. 43 or No. 45. Annual healthcare costs trend rates of 10% were used for both medical and prescription claims. These rates decrease by 0.5% per year down to 5.0% at 2021 and beyond for medical and by 1.0% per year down to 5.0% at 2016 and beyond for prescription costs. The unfunded actuarial accrued liability is amortized following a 30-year level percent of pay amortization on an open basis, using a 4.25% discount rate and a 2.50% payroll growth rate assumption.

The State finances claims on a pay-as-you-go basis and does not advance-fund the OPEB liability. While this liability is disclosed for financial statement purposes it does not represent a legal liability of the State of Montana or MPERA. Therefore, the following cost information shows no value for Plan Assets made by MPERA.

Annual Other Post-Employment Benefits (OPEB) Cost: MPERA's allocated annual OPEB cost (expense) for the year ending June 30, 2012 was $99,632. The interest on the net OPEB obligation for the year ending June 30, 2012 was $4,420. For fiscal year 2011, MPERA's allocated annual OPEB cost (expense) was $92,692 and the interest was $4,240. The cost that was allocated to MPERA for the years ended June 30, 2012 and June 30, 2011 was $99,632 and $92,692, respectively.

The PERB annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2012 and prior are as follows.

Annual OPEB Cost

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	$91,792	0.00%	$ 91,792
6/30/2009	95,693	0.00%	187,485
6/30/2010	88,913	0.00%	276,398
6/30/2011	92,692	0.00%	369,090
6/30/2012	99,632	0.00%	468,721

MPERA's net OPEB (NOPEB) outstanding at June 30, 2012 was as follows: Annual Required Contribution (ARC) is $104,000; interest on the NOPEB is $4,420; adjustments to the ARC is $0; increase in the NOPEB is $108,420; and the NOPEB obligation is $468,721.

Funded Status and Funding Progress: The most recent actuarial valuation available was completed by the State of Montana as of January 1, 2011 for the calendar year ending December 31, 2011. This actuarial valuation is completed every two years with the next valuation to be completed as of January 1, 2013 for the calendar year ending December 31, 2013.

The MPERA allocation of the plan as of the calendar year ending December 31, 2011 was as follows: Actuarial Accrued Liability (AAL) is $463,762; Actuarial Value of Plan Assets is $0; Unfunded Actuarial Accrued Liability (UAAL) is $463,762; Funded Ratio (Actuarial Value of Plan Assets/AAL) is 0 percent; Covered Payroll (Active Plan Members) is $1,644,229; and the UAAL as a Percentage of Covered Payroll is 28.21%.

6. Method Used To Value Investments

According to Article VIII, section 13 of the Montana Constitution and section 19-2-504, MCA, the Board of Investments (BOI) has a fiduciary responsibility for investing the defined benefit retirement plan assets on behalf of the defined benefit plan members. Investments are determined in accordance with the statutorily and constitutionally mandated "prudent expert principle." Pursuant to Article VIII, section 15 of the Montana Constitution and sections 19-2-502 and 19-2-503, MCA, the PERB has a fiduciary responsibility for the administration of the pension trust funds. For the defined benefit pools, the PERB relies on the Investment

Policy Statements that are drafted and approved by the BOI with the assistance of RV Kuhns & Associates, Inc., the investment consultant. Investments are reported at fair value. As of June 30, 2012, there were six major diversified pools, Montana Short Term Investment Pool (STIP), Montana Domestic Equity Pool (MDEP), Retirement Funds Bond Pool (RFBP), Montana International Equity Pool (MTIP), Montana Private Equity Pool (MPEP) and Montana Real Estate Investment Pool (MTRP).

The PERS-DCRP and Deferred Compensation Plan's fixed investments were administered through outside vendors Pacific Investment Management Company (PIMCO) and custodial bank State Street Bank Kansas City (SSKC) and a third-party insurer, Transamerica. Transamerica was previously known as Aegon until April 2012. All money invested in the Fixed Investments of the PERS-DCRP and Deferred Compensation Plan was transferred to a Pooled Trust on March 1, 2010.

For both the PERS-DCRP and Deferred Compensation plan the third party record keeper, Great-West Retirement Services, tracks and reports the daily trading and valuations of all investment options including the assets held by the individual mutual fund companies.

In addition to the laws cited previously, the PERS-DCRP investments are also governed by section 19-3-2122, MCA and the Deferred Compensation Plan investments are governed by Title 19, Chapter 50, MCA.

There are separate investment policies for the PERS-DCRP and Deferred Compensation plans. The investment policies are reviewed by the PERB on an annual basis and the investment options are reviewed quarterly by an independent third party consultant and investment analyst. In the review, each investment alternative is compared to its peers and the appropriate benchmark. In addition, each investment alternative is reviewed for other indicators including, but not limited to: style drift, duplication, and fund manager or other organizational changes. Investment alternatives that are determined to have a sub-standard performance rating or other negative indicators may be recommended for probation or termination. During the reviews, the PERB may decide to retain, replace or place in a probation status any of the offered mutual funds. Investments are reported at fair value as of June 30, 2012.

The following are the summaries of the BOI's fiscal year end statements, the fixed investments (Stable Value Group Trust) contracts and a statement about the variable investments. The BOI fiscal year statements and information on the income can be obtained by contacting BOI at the following address:

Montana Department of Commerce
Board of Investments
2401 Colonial Drive, 3rd Floor
PO Box 200126
Helena, MT 59620-0126.

STIP portfolio may include asset-backed securities, commercial paper, corporate and U.S. government direct obligations, U.S. government agency securities, repurchase agreements, institutional money market funds, certificates of deposit and variable-rate (floating rate) instruments. The

purpose of STIP is the preservation of principal, while obtaining money market type returns and 24-hour liquidity. The BOI manages the STIP consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. In meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use an amortized cost rather than fair value to report net assets to compute unit values. The portfolio is carried at amortized cost or book value with a constant unit value of $1.00. State agencies with accounts that retain interest earnings are legally required to invest in STIP and the PERB elects to have all STIP income automatically reinvested. For fiscal year 2012 income was distributed on the first calendar day of each month. *Credit Risk* is the risk that the issuer of a STIP security may default in making timely principal and interest payments. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The total investments credit quality rating for STIP is not rated (NR). The PERB portion of STIP is $51.3 million or 2.15%.

At June 30, 2012, the STIP balance included Structure Investment Vehicles (SIVs) that were no longer liquid. As a result these are no longer considered cash equivalents and are reclassified from cash to investments based on a pro rata share of the pension funds' investment in the pool.

MDEP may include common stock, equity index shares, preferred stock, convertible equity securities, American Depositary Receipts (ADR's), equity derivatives and commingled funds. The MDEP portfolio is limited to domestic stock or ADR investments. ADR investments are receipts issued by a U.S. depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. For *Custodial Credit Risk* as of June 30, 2012, all the MDEP securities were registered in the nominee name for the BOI and held in the possession of the BOI's custodial bank, State Street Bank. The PERB portion of MDEP is $1.8 billion or 62.64%.

RFBP portfolio includes corporate and foreign government bonds; U.S. government direct obligations and U.S. government agency securities; and cash equivalents. U.S. government direct obligations include U.S. Treasury securities and debt explicitly guaranteed by the U.S. government. U.S. government agency securities include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages. Real estate investments held, in part, for the PERS include a building at 100 North Park Avenue in Helena, MT; a building at 2273 Boot Hill Court in Bozeman, MT; a building at 2401 Colonial Drive in Helena, MT; and property located on California Street in Helena, MT. The BOI also holds the building located at 1712 Ninth Avenue in Helena, MT for the sole benefit of the PERS. The *Custodial Credit Risk* as of June 30, 2012, all real estate and mortgage investments were registered in the name of the Montana BOI. There is no *Concentration of Credit Risk* for the PERB. *Credit Risk* is that the issuer of a fixed income security may default in making timely principal and interest payments. With the exception of the U.S. government securities, the RFBP fixed income instruments have credit risk as

measured by major credit rating services. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The total fixed income investments credit quality rating for RFBP is not rated (NR). For *Custodial Credit Risk* as of June 30, 2012, all the fixed income securities were registered in the nominee name for the BOI and held in the possession of the BOI's custodial bank, State Street Bank. The State Street repurchase agreement was purchased in the State of Montana BOI name. For *Interest Rate Risk* as of June 30, 2012, in accordance with GASB Statement No. 40, the BOI has selected the effective duration method to disclose interest rate risk. The PERB portion of the entire RFBP is $1.2 billion or 62.65%. *Foreign Currency Risk* is the risk that changes in exchange rates will adversely affect the fair value of an investment. The RFBP includes securities subject to foreign currency risk. The PERB portion of the foreign currency risk is $966.4 thousand or 50.36%.

MTIP may include common stock, equity index shares, preferred stock, convertible equity securities, American Depositary Receipts (ADR's), equity derivatives, and commingled funds. ADR investments are receipts issued by a U.S. depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. The MTIP portfolio includes holdings of securities of foreign-based corporations listed on legal and recognized foreign exchanges as well as domestic exchanges. The MTIP portfolio invests in both developed and emerging markets. For *Custodial Credit Risk* as of June 30, 2012, all MTIP securities were registered in the nominee name for the BOI and held in the possession of the BOI's custodial bank, State Street Bank. The PERB portion of the entire MTIP is $773.7 million or 62.67%. *Foreign Currency Risk* is the risk that changes in exchange rates will adversely affect the fair value of an investment. The MTIP includes securities subject to foreign currency risk. The PERB portion of the foreign currency risk is $966.6 thousand or 50.37%.

MPEP portfolio may include venture capital, leveraged buyout, mezzanine, distressed debt, special situation, and secondary investments. These investments are made via Limited Partnership Agreements in which the BOI and other institutional investors invest as Limited Partners in funds managed by a General Partner. These investments are riskier with higher potential return than public equity investments and are less liquid because the funds are usually committed for at least ten years. Realized capital gains are not distributed unless the gains are needed to pay management fees. Income due participants is distributed monthly on the first calendar day of each month. For *Custodial Credit Risk* as of June 30, 2012, all MPEP investments were recorded in the name of the Montana BOI and held in the possession of the BOI's custodial bank, State Street Bank. The PERB portion of the entire MPEP is $637.4 million or 62.66%. *Foreign Currency Risk* is the risk that changes in exchange rates will adversely affect the fair value of an investment. The MPEP includes securities subject to foreign currency risk. The PERB portion of the foreign currency risk is $7.9 million or 50.35%.

MTRP portfolio includes investments in private core, value-added, and opportunistic real estate. Core investments are the least risky with the lowest return and are usually managed in commingled accounts in which the investor purchases shares. Value-added and opportunistic real estate investments provide more risk and return and are less liquid than core investments. These investments are usually made through Limited Partnership Agreements. The MTRP invests its cash in STIP. Realized capital gains are not distributed unless the gains are needed to pay management fees. Income due participants is distributed monthly on the first calendar day of each month. For *Custodial Credit Risk* as of June 30, 2012, all MTRP investments were recorded in the name of the Montana BOI and held in the possession of the BOI's custodial bank, State Street Bank. The PERB portion of the entire MTRP is $392.0 million or 62.69%. *Foreign Currency Risk* is the risk that changes in exchange rates will adversely affect the fair value of an investment. The MTRP includes securities subject to foreign currency risk. The PERB portion of the foreign currency risk is $9.9 million or 50.39%.

All Other Funds Investments portfolio no longer includes any investments for the pension plans. On May 1, 2011, the direct real estate buildings and residential mortgages, owned by the PERS, were sold to MTRP and RFBP.

Securities Lending Collateral, governed under the provisions of state statutes, BOI authorized the custodial bank, State Street Bank, to lend the BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan. The BOI and the custodial bank split the earnings on security lending activities. The securities lending collateral, securities lending collateral liability, securities lending income, and securities lending expense consist of allocations to PERB on a pro rate basis of its ownership share of each pool with securities lending activity. On any day including June 30th, the markets may move in a positive or negative direction resulting in under or over collateralization. The Bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. The private equity and real estate pools do not participate in securities lending.

Fixed Investments (Stable Value Group Trust) for the PERS-DCRP and the Deferred Compensation Plan, are administered through outside vendors Pacific Investment Management Company (PIMCO) and custodial bank, State Street Bank Kansas City (SSKC), and a third-party insurer, Transamerica. When participants invest in the fixed investment option they are guaranteed a rate of return. The fixed investment employs a synthetic stable value strategy where the investment manager, PIMCO, manages a diversified bond portfolio and Transamerica guarantees the participants principal investments and earnings. Transamerica calculates the rate of return each quarter called the "crediting rate", which is used to credit earnings to participant accounts. Transamerica sets a fixed quarterly rate of

return based on the investment manager's portfolio market value yield and duration.

The PERB entered into a Pooled Trust contract with Transamerica, PIMCO and SSKC for fixed income investments held by the PERB in the PERS-DCRP and Deferred Compensation Plan. The Pooled Trust qualifies as a group trust under sections 401(a), including section 401(a)(24) and 501(a), of the IRC of 1986, as amended. All monies invested in the Fixed Investments of the PERS-DCRP and Deferred Compensation Plan were transferred to the Pooled Trust.

Under the Pooled Trust agreement Transamerica provides a guarantee of principal and sets a fixed quarterly crediting rate. The Pooled Trust assets are invested by PIMCO and are held under a custodial agreement with SSKC. The Pooled Trust assets are invested by PIMCO based on an investment guideline schedule as agreed upon in the Pooled Trust Contract and approved by the PERB, Transamerica and PIMCO. *Concentration of Credit Risk* is addressed in the investment policy statement of the Stable Value Group trust.

Variable Investments for the PERS-DCRP and Deferred Compensation Plan are held and managed in a selection of retail and institutional mutual funds, which cover all standard asset classes and categories. The selection of offered mutual funds is designed to provide participants with the ability to diversify investments and meet their individual investment goals and strategies. With advice from an independent investment analyst and assistance from the statutorily created Employee Investment Advisory Council (EIAC), the PERB conducts quarterly reviews of the offered mutual funds. The goal of the reviews is to ensure that the offered mutual funds meet standards established in the Investment Policy Statements adopted by the PERB. The investment policies state: "Participants make individual investment decisions, subject to the investments offered under the plan and, ultimately, bear the risks and rewards of investment returns." In the reviews, each investment alternative is compared to its peers and the appropriate benchmark. In addition, each investment alternative is reviewed for other indicators including, but not limited to: style drift, duplication, and fund manager or other organizational changes. Investment alternatives that are determined to have a sub-standard performance rating or other negative indicators may be recommended for probation or termination. During the reviews the PERB may decide to retain, replace or place in a probation status any of the offered mutual funds. *Concentration of Credit Risk* is not addressed in the investment policy and investments in mutual funds are not required to be disclosed.

Investments are reported at fair value as of June 30, 2012. Available funds in the PERS-DCRP and Deferred Compensation Plan are listed in the section. A listing may also be obtained by contacting MPERA.

B. Litigation

Each of the plans administered by the PERB may be involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management and legal counsel, the disposition of those matters will not have a material, adverse affect on any plan's financial position as

a whole.

Center for Mental Health. The legislature amended § 19-3-108(3), MCA in 1999 requiring PERS to exclude participation by certain employees, hired by regional mental health centers on or after July 1, 1999 from PERS participation. The Center for Mental Health (CMH) continued to improperly report employees as PERS members until 2009 when MPERA discovered these errors. MPERA subsequently returned the incorrectly paid contributions to the employees and the employer and corrected retirement benefits. The impacted employees hired legal counsel, Joseph Cosgrove of Hoyt and Blewett in Great Falls, to represent them. Cosgrove filed an administrative claim with Risk Management and Tort Defense (RMTD) and a complaint was filed against MPERA and the State on September 13, 2011 and served on the Office of the Attorney General on October 4, 2011. The complaint alleges MPERA and the State negligently breached their duties to administer and manage PERS. Plaintiffs seek damages for past and future economic damages, emotional distress, costs and disbursements. Litigation-related discovery is progressing under the auspices of RMTD and Maxon Davis, Esq. If plaintiffs are successful, tort-based damages may be limited to $1.5 million under § 2-9-108, MCA and will be paid through the state's self-insurance reserve fund, not the PERS trust fund. Any award of damages based on payment of retirement benefits or collection of interest on wrongly withheld contributions will not have a material, adverse effect on PERS's financial position as a whole.

John Crossman, et al. v. MPERA. In 2007 former volunteer firefighters contested MPERA's refusal to increase their VFCA retirement benefits based on 2003 and 2005 legislative amendments to § 19-17-404, MCA. Both of these amendments increased retirement benefits for members who serve as volunteer firefighters for more than twenty years. The claimants, who all served for more than twenty years prior to 2005, seek to have their retirement benefits recalculated according to the new benefit structure provided in the amended version of § 19-17-404, MCA. Because the claimants all retired prior to the effective dates of the amendments, MPERA determined that they are not eligible to have their retirement benefits recalculated. Following the filing of cross motions for summary judgment, the hearing examiner issued a proposed order granting MPERA's motion, which the PERB adopted as its Final Order in December 2008. Claimants then filed a petition for judicial review in the First Judicial District, Judge Dorothy McCarter presiding. Judge McCarter issued an order in January 2010 holding that the claimants are included within § 19-17-404, MCA, but remanding for a determination on whether their claim is barred by the two year statute of limitations under § 27-2-211(1)(c), MCA. Hearing Examiner Melcher denied cross motions for summary judgment and expanded the statute of limitations issue to a determination of which period of limitations is applicable. Examiner Melcher presided over an administrative hearing in early October 2011. A proposed order was issued July 17, 2012, applying the two year statute of limitations and determining that the named claimants are entitled to retroactive pay totaling $69,930 and increased benefits going forward. PERB adopted the proposed order as its

Final Order on September 13, 2012. The Final Order was then forwarded to the First Judicial District Court. Thereafter, at its October 2012 meeting, PERB determined to offer to settle this lawsuit by paying the claimants the 2005 increase retroactive to May 2005, and paying the new benefit amount going forward. Claimants agreed. They will receive a total retroactive payment of $74,925 in November 2012, with their increased benefits commencing with the November payment. Section 19-3-403(16), MCA requires PERB to treat similarly situated members similarly. Therefore, PERB has determined to increase the benefit payment for all similarly situated VFCA retirees. In January 2013, existing retirees, other than Claimants, will receive a total retroactive payment of $588,075 from May 2005 through December 2012, with the retirees' increased benefit amounts commencing with the January payments. Going forward, based on retiree data as of June 2012, monthly benefits will increase by approximately $7,432.50 for 282 retirees.

C. Plan Membership, Descriptions And Contribution Information

The plans are established and amended statutorily by the Legislature. In all defined benefit plans (except VFCA), if a member leaves covered employment before retirement, the member contributions plus accrued interest (accumulated contributions) may be refunded to the member. If a member returns to service and repays the withdrawn accumulated contributions plus the interest the accumulated contributions would have earned had they remained on deposit, membership service is restored. Membership in each plan as of June 30, 2012 and June 30, 2011 is detailed in the following charts.

PERS-DBRP Membership

	2012	2011		2012	2011
Number of participating employers	538	533			
Active plan members	28,548	28,659	Retiree and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	18,148	17,509
Vested	2,560	2,535	Disability Retirements	200	231
Non-vested	6,164	5,787	Survivor Benefits	390	383
	8,724	8,322		18,738	18,123

JRS Membership

	2012	2011		2012	2011
Number of participating employers	1	1			
Active plan members	54	54	Retiree and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	54	56
Vested	-	-	Disability Retirements	-	-
Non-vested	-	-	Survivor Benefits	2	2
	-	-		56	58

HPORS Membership

	2012	2011		2012	2011
Number of participating employers	1	1			
Active plan members	218	214	Retiree and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	280	276
Vested	11	11	Disability Retirements	9	10
Non-vested	10	9	Survivor Benefits	16	16
	21	20		305	302

SRS Membership

	2012	2011		2012	2011
Number of participating employers	57	57			
Active plan members	1,241	1,230	Retiree and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	415	392
Vested	60	48	Disability Retirements	33	31
Non-vested	212	196	Survivor Benefits	21	18
	272	244		469	441

GWPORS Membership

	2012	2011		2012	2011
Number of participating employers	7	7			
Active plan members	972	951	Retiree and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	153	138
Vested	64	61	Disability Retirements	2	-
Non-vested	146	113	Survivor Benefits	8	7
	210	174		163	145

MPORS Membership

	2012	2011		2012	2011
Number of participating employers	31	31			
Active plan members	736	739	Retiree and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	634	624
Vested	49	40	Disability Retirements	20	22
Non-vested	76	71	Survivor Benefits	29	30
	125	111		683	676

FURS Membership

	2012	2011		2012	2011
Number of participating employers	24	24			
Active plan members	590	579	Retiree and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	543	524
Vested	13	13	Disability Retirements	7	7
Non-vested	62	60	Survivor Benefits	21	21
	75	73		571	552

VFCA Membership

	2012	2011		2012	2011
Number of participating employers	217	216			
Active plan members	2,106	2,105	Retiree and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	1,242	1,183
Vested	879	870	Disability Retirements	-	-
			Survivor Benefits	-	-
				1,242	1,183

PERS-DCRP Membership

	2012	2011		2012	2011
Number of participating employers	258	261			
Active plan members	2,032	2,021	Retiree and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Periodic Distributions	12	8
Vested	172	143	Disability Retirements	4	2
Non-vested	388	344	Survivor Benefits	1	1
	560	487		17	11

Deferred Compensation (457) Membership

	2012	2011		2012	2011
Number of participating employers	28*	23*	Number of participating plan members	8,156	8,091
Number of participating employers that provide contributions on members' behalf	4	2	Number of participating plan members that are actively contributing to their deferred compensation accounts	4,584	4,648

*All State agencies are counted as one employer.

Public Employees' Retirement System-DBRP (PERS-DBRP)

Plan Description: The PERS-Defined Benefit Retirement Plan (DBRP) is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). This plan covers the State, local governments, certain employees of the Montana University System, and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be members of both the defined benefit and defined contribution retirement plans. All new members from the universities also have a third option to join the university system's Optional Retirement Program (ORP). For members that choose to join the PERS-DCRP or the ORP, a percentage of the employer contribution will be used to assist with the funding of the PERS-DBRP.

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service. A brief summary of eligibility and benefits follows.

PERS-DBRP Summary of Benefits

Member's highest average compensation (HAC)
Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;
Hired on or after July 1, 2011 - highest average compensation during any consecutive 60 months.

Eligibility for benefit
Service retirement:
Hired prior to July 1, 2011: Age 60, 5 years of membership service;
Age 65, regardless of membership service; or
Any age, 30 years of membership service.

Hired on or after July 1, 2011: Age 65, 5 years of membership service;
Age 70, regardless of membership service.

Early retirement, actuarially reduced:
Hired prior to July 1, 2011: Age 50, 5 years of membership service; or
Any age, 25 years of membership service.

Hired on or after July 1, 2011: Age 55, 5 years of membership service.

Vesting 5 years of membership service

PERS-DBRP Summary of Benefits (continued)

Monthly benefit formula

Members hired prior to July 1, 2011:

Less than 25 years of membership service: 1.785% of HAC per year of service credit;
25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011:

Less than 10 years of membership service: 1.5% of HAC per year of service credit;
10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

At June 30, 2012 PERS had 538 participating employers, five more than fiscal year 2011. The participating employers consist of:

PERS-DBRP EMPLOYERS

Employers	June 30, 2012	June 30, 2011
State Agencies	34	34
Counties	55	55
Cities and Towns	98	97
Colleges and Universities	5	5
School Districts	230	231
High Schools	6	6
Other Agencies	110	105
Total	538	533

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2012 was 6.9% of the member's compensation for members hired prior to July 1, 2011. Members hired on or after July 1, 2011 have a contribution rate of 7.9%. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a request for retirement or refund is processed.

Each state agency and university system employer contributed 7.17% of PERS-covered payroll during fiscal year 2012. Participating local governments contributed 7.07% of PERS-covered payroll during fiscal year

2012. The State contributed the remaining 0.1% for local governments. Participating school districts contributed 6.8% of PERS-covered payroll during fiscal year 2012. The state contributed the remaining 0.37%. A percentage of the employers' contributions is used to fund the employee education program. (Reference Schedule of Contribution Rates).

Plan Membership Elections: MPERA has included in the financial statements transfers of $609,358 in Transfers to DCRP and $122,882 in Transfers to ORP. These transfers reflect the DCRP and ORP contributions of participants that filed elections at or near the June 30 cutoff date. The contributions were transferred in early fiscal year 2013.

PERS-DBRP Active Membership by Employer Type

Employer Type	6/30/2012	6/30/2011
State Agencies	10,718	10,807
Counties	5,336	5,397
Cities	3,225	3,181
Universities	2,690	2,638
High Schools	63	60
School Districts	5,321	5,387
Other Agencies	1,195	1,189
Total	28,548	28,659

Additional Service Purchase Due to a Reduction in Force: Section 19-2-706, MCA allows state and university system employees who are eligible for a service retirement and whose positions have been eliminated due to a reduction in force, to have their employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. The employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by the PERB on the unpaid balance. The employees participating under section 19-2-706, MCA increased from 209 in fiscal year 2011 to 217 in fiscal year 2012. The contributions received (including interest) during fiscal year 2012 totaled $128,352. The outstanding balance at June 30, 2012, totaled $48,108.

Public Employees' Retirement System-DBRP Education Fund: Education is provided to all members of the PERS regardless of plan choice as governed by section 19-3-112, MCA. The education must be presented with impartial and balanced information about plan choices, investments and retirement planning.

The education program consists of ongoing transfer education for new members and investment/retirement planning education for all active members.

The education program was funded by 0.04% of PERS-covered payroll in fiscal year 2012.

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the Normal Cost Rate plus an amortization payment of the Unfunded Actuarial Liability, if any, over no more than 30 years. As of June 30, 2012, the statutory contribution rates are not sufficient to amortize the unfunded actuarial accrued liablity. During the year ended June 30, 2012, the PERS' assets gained 2.27% on a market value basis. However, due to the asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 3.28%. This return was below the assumed rate of return of 7.75% and resulted in an actuarial loss on investments of $168 million.

Judges' Retirement System (JRS)

Plan Description: The JRS is a single-employer defined benefit plan established in 1967, and governed by Title 19, chapters 2 & 5 of the MCA. This system provides benefits for all Montana judges of the district courts, justices of the Supreme Court, and the Chief Water Judge or Associate Water Judge. Benefits are established by state law and can only be amended by the Legislature. The JRS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and compensation. Member rights are vested after five years of service. A brief summary of eligibility and benefits follows.

JRS Summary of Benefits

Member's current salary[1] or highest average compensation (HAC)[2]

[1]Hired prior to July 1, 1997 and non-GABA - monthly compensation at time of retirement;
[2]Hired after June 30, 1997 or electing GABA - HAC during any consecutive 36 months.

Eligibility for benefit

Age 60, 5 years of membership service;
Any age with 5 years of membership service - involuntary termination, actuarially reduced.

Vesting 5 years of membership service

Monthly benefit formula

3-1/3% of current salary[1] (non-GABA) or HAC[2] (GABA) per year of service credit for the first 15 years of service credit, plus 1.785% per year for each year after 15 years.

Guaranteed Annual Benefit Adjustment (GABA)

Hired on or after July 1, 1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member's benefit.

Minimum benefit adjustment (non-GABA)

Hired prior to July 1, 1997 - current salary of an active member in same position is used in the calculation of the monthly benefit each time the Legislature increases salaries for active judges.

At June 30, 2012 JRS had one participating employer, the same as fiscal year 2011. The participating employer consists of:

JRS EMPLOYERS

Employer	June 30, 2012	June 30, 2011
State Agency - Supreme Court	1	1
Total	1	1

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2012 was 7.0% of the member's monthly compensation. Contributions are deducted from each member's salary and remitted by the participating employer. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed.

JRS Active Membership by Employee Type

Employee Type	6/30/2012	6/30/2011
GABA	41	41
Non-GABA	13	13
Total	54	54

As the employer, the State contributed 25.81% of the total JRS-covered payroll to the retirement plan during fiscal year 2012. (Reference Schedule of Contribution Rates).

Actuarial status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the Normal Cost Rate plus an amortization payment of the Unfunded Actuarial Liability, if any, over no more than 30 years. As of June 30, 2012, the statutory contribution rates are sufficient to amortize the unfunded actuarial accrued liability. During the year ended June 30, 2012, the JRS' assets gained 2.20% on a market value basis. However, due to the asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 3.63%. This return was below the assumed rate of return of 7.75% and resulted in an actuarial loss on investments of $2.5 million.

Highway Patrol Officers' Retirement System (HPORS)

Plan Description: The HPORS is a single-employer, defined benefit plan established July 1, 1945, and governed by Title 19, chapters 2 & 6 of the MCA. This system provides retirement benefits to all members of the Montana Highway Patrol, including supervisory personnel. Benefits are established by state law and can only be amended by the Legislature. The HPORS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and highest average compensation. Member rights for death and disability are vested immediately. All other rights are vested after five years of service. A brief summary of eligibility and benefits follows on the next page.

HPORS Summary of Benefits

Member's highest average compensation (HAC)
Highest average compensation during any consecutive 36 months.

Eligibility for benefit
20 years of membership service, regardless of age.

Early Retirement
5 years of membership service, actuarially reduced from age 60.

Vesting 5 years of membership service

Monthly benefit formula
2.5% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)
Hired on or after July 1, 1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member's benefit.

Minimum benefit adjustment (non-GABA)
Hired prior to July 1, 1997 - monthly benefits for non-GABA members are increased each July when they fall below a statutorily guaranteed minimum. Any annual increase is limited to 5.0% over the current benefit and may not exceed 60% of the current base salary of a probationary officer.

At June 30, 2012 HPORS had one participating employer, the same as fiscal year 2011. The participating employer consists of:

HPORS EMPLOYERS

Employer	June 30, 2012	June 30, 2011
State Agency - Department of Justice	1	1
Total	1	1

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2012 is 9.05% of the member's total compensation if hired on or after July 1, 1997 or for members electing GABA, and 9.0% for those members hired prior to July 1, 1997 and not electing GABA (all active members hired prior to July 1, 1997 have elected GABA). Contributions are deducted from each member's salary and remitted by the participating employer. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed.

As the employer, the State contributed 36.33% of the total HPORS-covered payroll during fiscal year 2012. The first 26.15% is payable from the same source used to pay members' compensation. The remaining amount, equal to 10.18%, is payable from the general fund through a statutory appropriation. (Reference Schedule of Contribution Rates).

HPORS Active Membership by Employee Type

Employee Type	6/30/2012	6/30/2011
GABA	218	214
Non-GABA	0	0
Total	218	214

Additional Service Purchase Due to a Reduction in Force: Section 19-2-706, MCA allows state and university system employees who are eligible for a service retirement and whose positions have been eliminated to have their employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. The employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by the PERB on the unpaid balance. No employees have taken advantage of this provision to date.

Supplemental Benefit for Retirees: Section 19-6-709, MCA provides eligible Montana highway patrol officers retired prior to July 1, 1991, or their survivors, an annual supplemental lump-sum payment distributed each September. This lump-sum payment is funded by a statutory appropriation requested by the PERB from the general fund. Factors impacting eligibility include the number of years the recipient has received a service retirement benefit or disability benefit, the recipient's age, and whether the recipient is employed in a position covered by a retirement system under Title 19. The average annual supplemental payment for non-GABA retirees was $2,773 in September 2012.

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the Normal Cost Rate plus an amortization payment of the Unfunded Actuarial Liability, if any, over no more than 30 years. As of June 30, 2012, the HPORS amortizes in 49.7 years. During the year ended June 30, 2012, the HPORS' assets gained 2.24% on a market value basis. However, due to the asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 3.32%. This return was below the assumed rate of return of 7.75% and resulted in an actuarial loss on investments of $4.2 million.

Sheriffs' Retirement System (SRS)

Plan Description: The SRS is a multiple-employer, cost-sharing defined benefit plan established July 1, 1974, and governed by Title 19, chapters 2 & 7, MCA. This plan provides retirement benefits to all Department of Justice criminal and gambling investigators hired after July 1, 1993, all detention officers hired after July 1, 2005, and to all Montana sheriffs. Benefits are established by state law and can only be amended by the Legislature. The SRS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service. A brief summary of eligibility and benefits follows on the next page.

SRS Summary of Benefits

Member's highest average compensation (HAC)
Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months; Hired on or after July 1, 2011 - highest average compensation during any consecutive 60 months.

Eligibility for benefit
20 years of membership service, regardless of age.

Early Retirement
Age 50, 5 years of membership service, actuarially reduced.

Vesting 5 years of membership service

Monthly benefit formula
2.5% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)
After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

At June 30, 2012 SRS had 57 participating employers, the same as fiscal year 2011. The participating employers consist of:

SRS EMPLOYERS

Employers	June 30, 2012	June 30, 2011
State Agencies - Department of Justice	1	1
Counties	56	56
Total	57	57

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2012 was 9.245% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed.

The employer contribution rate for fiscal year 2012 was 10.115%. (Reference Schedule of Contribution Rates).

SRS Active Membership by Employer Type		
Employer Type	6/30/2012	6/30/2011
Dept of Justice	54	49
Counties	1,187	1,181
Total	1,241	1,230

Additional Service Purchase Due to a Reduction in Force: Section 19-2-706, MCA allows state employees who are eligible for a service retirement and whose positions have been eliminated to have their employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. The employer has up to ten years to complete payment for the service purchases and is charged the actuarial rate of return as established by the PERB on the unpaid balance. Three employees have taken advantage of this provision to date.

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the Normal Cost Rate plus an amortization payment of the Unfunded Actuarial Liability, if any, over no more than 30 years. As of June 30, 2011 the statutory contribution rates are not sufficient to amortize the unfunded actuarial accrued liability. During the year ending June 30, 2012, the SRS' assets gained 2.32% on a market value basis. However, due to the asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 3.82%. This return was below the assumed rate of return of 7.75% and resulted in an actuarial loss on investments of $8.0 million.

Game Wardens' and Peace Officers' Retirement System (GWPORS)

Plan Description: The GWPORS is a multiple-employer, cost-sharing defined benefit plan established in 1963 and governed by Title 19, chapters 2 & 8, MCA. This system provides retirement benefits to all persons employed as a game warden, warden supervisory personnel, or state peace officer. Benefits are established by state law and can only be amended by the Legislature. The GWPORS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

A brief summary of eligibility and benefits follows.

GWPORS Summary of Benefits

Member's highest average compensation (HAC)
Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;
Hired on or after July 1, 2011 - highest average compensation during any consecutive 60 months.

Eligibility for benefit
Age 50, 20 years of membership service.

Early Retirement (reduced benefit)
Age 55, vested members who terminate employment prior to 20 years of membership service.

GWPORS Summary of Benefits (continued)

Vesting 5 years of membership service

Monthly benefit formula
2.5% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)
After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

At June 30, 2012 GWPORS had seven participating employers, the same as fiscal year 2011. The participating employers consist of:

GWPORS EMPLOYERS

Employers	June 30, 2012	June 30, 2011
State Agencies	4	4
Colleges and Universities	3	3
Total	7	7

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2012 was 10.56% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed.

Each state agency and university employer contributed 9.0% of total GWPORS-covered payroll to the retirement plan during fiscal year 2012. (Reference Schedule of Contribution Rates).

GWPORS Active Membership by Employer

Employer	6/30/2012	6/30/2011
Dept of Corrections	726	702
Dept FW&P	101	104
Dept of Livestock	35	35
Dept of Transport.	76	77
Universities	34	33
Total	972	951

Additional Service Purchase Due to a Reduction in Force: Section 19-2-706, MCA allows state and university system employees who are eligible for a service retirement and whose positions have been eliminated to have their employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. The employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by the PERB on the unpaid balance. No employees have taken advantage of this provision to date.

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the Normal Cost Rate plus an amortization payment of the Unfunded Actuarial Liability, if any, over no more than 30 years. As of June 30, 2012, the statutory contribution rates are not sufficient to amortize the unfunded actuarial accrued liability. During the year ending June 30, 2011, the GWPORS' assets gained 2.31% on a market value basis. However, due to the asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 4.43%. This return was below the assumed rate of return of 7.75% and resulted in an actuarial loss on investments of $3.0 million.

Municipal Police Officers' Retirement System (MPORS)

Plan Description: The MPORS is a multiple-employer, cost-sharing defined benefit plan established in 1974 and is governed by Title 19, chapters 2 & 9 of the MCA. This plan covers all municipal police officers employed by first- and second-class cities and other cities that adopt the plan. Benefits are established by state law and can only be amended by the Legislature. The MPORS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and compensation. Member rights for death and disability are vested immediately. All other rights are vested after five years of service.

A brief summary of eligibility and benefits follows.

MPORS Summary of Benefits

Member's final average compensation (FAC)
Hired prior to July 1, 1977 - average monthly compensation of final year of service;
Hired on or after July 1, 1977 - final average compensation (FAC) for last consecutive 36 months.

Eligibility for benefit
20 years of membership service, regardless of age.

Early Retirement
Age 50, 5 years of membership service.

Vesting 5 years of membership service

MPORS Summary of Benefits (continued)

Monthly benefit formula
2.5% of FAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)
Hired on or after July 1, 1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member's benefit.

Minimum benefit adjustment (non-GABA)
If hired before July 1, 1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than ½ the compensation of a newly confirmed officer in the city where the member was last employed.

At June 30, 2012 MPORS had 31 participating employers, the same as fiscal year 2011. The participating employers consist of:

MPORS EMPLOYERS

Employers	June 30, 2012	June 30, 2011
Cities	31	31
Total	31	31

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. Member contribution rates are dependent upon date of hire as a police officer. For fiscal year 2012, member contributions as a percentage of salary were 7.0% if employed after June 30, 1975 and prior to July 1, 1979; 8.5% if employed after June 30, 1979 and prior to July 1, 1997; and, 9.0% if employed on or after July 1, 1997 and for members electing GABA. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed.

Employer contributions to the retirement plan are 14.41% of total MPORS-covered payroll. The State contributions are requested at the beginning of the fiscal year based on the previous fiscal year compensation and are due no later than November 1.

The State's contribution rate for fiscal year 2012 was 29.37%. (Reference Schedule of Contribution Rates).

MPORS Active Membership
by Employee Type

Employee Type	6/30/2012	6/30/2011
GABA	729	730
Non-GABA	7	9
Total	736	739

Deferred Retirement Option Plan (DROP): Beginning July 2002, eligible members of MPORS can participate in the DROP by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, chapter 9, part 12, MCA. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may participate in the DROP only once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During the participation in the DROP, all mandatory contributions continue to the retirement system. A monthly benefit is calculated based on salary and years of service to date as of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated. As of June 30, 2012, a total of 90 members have participated in the DROP.

DROP Participation

	6/30/2012	6/30/2011
Participants Beginning of Year	37	32
Participants Added	2	10
Completed DROP	2	5
Participants End of Year	37	37
DROP Distributions	$352,107	$448,988

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the Normal Cost Rate plus an amortization payment of the Unfunded Actuarial Liability, if any, over no more than 30 years. As of June 30, 2012, the MPORS amortizes in 25.7 years. During the year ended June 30, 2012, the MPORS' assets gained 2.40% on a market basis. However, due to the asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 3.71%. This return was below the assumed rate of return of 7.75% and resulted in an actuarial loss on investments of $9.0 million.

Firefighters' Unified Retirement System (FURS)

Plan Description: The FURS is a multiple-employer, cost-sharing defined benefit plan established in 1981, and governed by Title 19, chapters 2 & 13, MCA. This system provides retirement benefits to firefighters employed by first- and second-class cities, other cities and rural fire district departments that adopt the plan, and to firefighters hired by the Montana Air National Guard (MANG) on or after October 1, 2001. Benefits are established by state law and can only be amended by the Legislature. The FURS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and compensation. Member rights for death and disability are vested immediately. All other member rights are vested after five years of service.

A brief summary of eligibility and benefits follows.

FURS Summary of Benefits

Member's compensation
Hired prior to July 1, 1981 and not electing GABA - highest monthly compensation (HMC);
Hired on or after July 1, 1981 and those electing GABA - highest average compensation (HAC) during any consecutive 36 months.

Eligibility for benefit
20 years of membership service, regardless of age.

Early Retirement
Age 50, 5 years of membership service.

Vesting 5 years of membership service

Monthly benefit formula
1) Members hired prior to July 1, 1981 and not electing GABA are entitled to the greater of:
2.5% of HMC per year of service; OR
i) if less than 20 years of service -
2% of HMC for each year of service;
ii) if more than 20 years of service -
50% of the member's HMC plus 2% of the member's HMC for each year of service over 20 years
2) Members hired after June 30, 1981 and those electing GABA:
2.5% of HAC per year of service.

Guaranteed Annual Benefit Adjustment (GABA)
Hired on or after July 1, 1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member's benefit.

FURS Summary of Benefits (continued)

Minimum benefit adjustment (non-GABA)
If hired before July 1, 1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than ½ the compensation of a newly confirmed firefighter employed by the city that last employed the member (provided the member has at least ten years of membership service).

At June 30, 2012 FURS had 24 participating employers, the same as in fiscal year 2011. The participating employers consist of:

FURS EMPLOYERS

Employers	June 30, 2012	June 30, 2011
State Agencies - Department of Military Affairs	1	1
Cities	16	16
Rural Fire Districts	7	7
Total	24	24

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rates for fiscal year 2012 are 9.5% for members hired prior to July 1, 1997 and not electing GABA, and 10.7% for members hired on or after July 1, 1997 and members electing GABA. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed.

Employer contribution rates for fiscal year 2012 were 14.36% of the total FURS-covered payroll.

The State contribution was 32.61% of total compensation for all covered firefighters in fiscal year 2012. State contributions are requested at the beginning of each fiscal year based on previous fiscal year salary and are due no later than November 1. (Reference Schedule of Contribution Rates).

FURS Active Membership by Employee Type

Employee Type	6/30/2012	6/30/2011
GABA	584	573
Non-GABA	6	6
Total	590	579

Additional Service Purchase Due to a Reduction in Force: Section 19-2-706, MCA allows state and university system employees who are eligible for a service retirement and whose positions have been eliminated to have their employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. The employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return

as established by the PERB on the unpaid balance. No employees have taken advantage of this provision to date.

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the Normal Cost Rate plus an amortization payment of the Unfunded Actuarial Liability, if any, over no more than 30 years. As of June 30, 2012, the FURS amortizes to 16.4 years. During the year ended June 30, 2012, the FURS' assets gained 2.42% on a market value basis. However, due to the asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 3.87%. This return was below the assumed rate of return of 7.75% and resulted in an actuarial loss on investments of $8.6 million.

Volunteer Firefighters' Compensation Act (VFCA)

Plan Description: The VFCA is a statewide retirement and disability plan. This compensation plan was established in 1965 and is governed by Title 19, chapter 17, MCA. All members are unpaid volunteers and the State of Montana is the only contributor to the plan. Benefits are established by state law and can only be amended by the Legislature. The VFCA provides pension, disability, and survivorship benefits for all volunteer firefighters who are members of qualified volunteer fire companies in unincorporated areas, towns or villages and includes volunteer fire departments, fire districts, and fire service areas under the laws of the State of Montana. Benefits are based on eligibility and years of service. Member rights are vested after ten years of credited service. VFCA also provides limited benefits for death or injuries incurred in the line of duty.

A member who chooses to retire and draw a pension benefit may return to service with a volunteer fire department without loss of benefits. A returning retired member may not be considered an active member accruing credit for service.

A brief summary of eligibility and benefits follows.

VFCA Summary of Benefits

Eligibility for benefit
Age 55, 20 years of credited service;
Age 60, 10 years of credited service.

Additional benefit
As of April 25, 2005, all retirees receive a benefit equal to $7.50 per month for each year of credited service, up to 30 years of service (maximum benefit $225).

Members who retire on or after July 1, 2011 and have greater than 30 years of credited service will receive $7.50 per month for each additional year of credited service after 30 years if the pension trust fund is actuarially sound, amortizing any unfunded liabilities in 20 years or less. This determination will be made annually and a member's benefit will be capped at $225 a month (30 years of credited service) if the amortization period grows to greater than 20 years.

VFCA Summary of Benefits (continued)

Vesting 10 years of credited service

Monthly benefit formula
$7.50 per year of credited service

Contributions: The State is the only contributor to the VFCA. Contributions are 5% of fire insurance premium taxes collected on certain fire risks. The State Auditor makes annual payments from the general fund to the Volunteer Firefighters' Compensation Act fund. (Reference Schedule of Contribution Rates).

Group Insurance Payments: Supplemental payments are available to qualified volunteer fire companies that provide additional group medical insurance for their members in case of death or injury incurred while in the line of duty. The payment is made to the volunteer fire companies and is equal to $75 per year for each mobile firefighting unit owned by the volunteer fire company, up to a maximum of two units.

Actuarial Status: The annual required contribution increased from $1,070,363 at the June 30, 2011 valuation to $1,125,222 at the June 30, 2012 valuation. The required contribution is determined by amortizing the unfunded actuarial liability over a 20-year period. As of June 30, 2012, the VFCA amortizes to 9.3 years. During the year ended June 30, 2012, the VFCA's assets gained 1.67% on a market value basis. However, due to the asset-smoothing method which recognizes only a portion of the gains and losses, the return on the actuarial asset value was a negative 2.97%. This return was below the assumed rate of return of 7.75% and resulted in an actuarial loss on investments of $1.2 million.

Public Employees' Retirement System-DCRP (PERS-DCRP)

Plan Description: The PERS-Defined Contribution Retirement Plan (DCRP) is a multiple employer plan established July 1, 2002 and governed by Title 19, chapters 2 & 3, MCA. This plan is available to eligible employees of the State, Montana University System, local governments, and school districts. All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the PERS-DBRP by filing an irrevocable election. If an election is not filed the member remains in the PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. The PERS-DCRP provides retirement, disability, and death benefits to plan members and their beneficiaries.

A brief summary of eligibility and benefits follows on the next page.

PERS-DCRP Summary of Benefits

Eligibility for benefit
Termination of Service

Vesting
Immediate for participant's contributions and attributable income;
5 years of membership service for the employer's contributions to individual accounts and attributable income.

Benefit
Depends upon eligibility and individual account balance;
Various payout options are available, including: taxable lump sums, periodic payments per participant direction and IRS permitted rollovers.

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2012 was 6.9% of member's compensation for members hired prior to July 1, 2011. Members hired on or after July 1, 2011 have a contribution rate of 7.9%. Contributions are deducted from each member's salary and remitted by participating employers. The entire amount of the member's contribution is credited to the individual account and maintained by the record keeper.

Each state agency and university system employer contributed 7.17% of PERS-covered payroll during fiscal year 2012. Participating local governments employers contribute 7.07% of PERS-covered payroll during fiscal year 2012. The State contributes the remaining 0.1% for local governments. Participating school districts contribute 6.8% of PERS-covered payroll during fiscal year 2012. The State contributed the remaining 0.37%. (Reference Schedule of Contribution Rates).

The employer rate of 7.17% is allocated as follows: 4.19% to the member's retirement account, 2.64% to the defined benefit plan choice rate, 0.04% to the defined contribution education fund and 0.3% to the long term disability plan.

PERS-DCRP Active Membership
by Employer Type

Employer Type	6/30/2012	6/30/2011
State Agencies	915	930
Counties	349	355
Cities	263	255
Universities	113	101
High Schools	3	3
School Districts	234	229
Other Agencies	155	148
Total	2,032	2,021

At June 30, 2012 PERS-DCRP had 258 reporting employers, three less than in fiscal year 2011. The participating employers consist of:

PERS-DCRP EMPLOYERS

Employers	June 30, 2012	June 30, 2011
State Agencies	31	31
Counties	44	45
Cities and Towns	47	48
Universities	5	4
School Districts	90	92
High Schools	2	2
Other Agencies	39	39
Total	258	261

Plan Membership Elections: Included in the financial statements are employer contribution transfers of $8,773 and member contribution transfers of $14,745. These transfers reflect the contribution transfers of DCRP participants that filed elections at or near the June 30 cutoff date, although the contributions were not moved until early fiscal year 2013.

DCRP Education Fund: Implemented July 1, 2002, the DCRP Education Fund (DCEd), as governed by section 19-3-112, MCA, was established to provide funding for the required education programs for members who have joined the PERS-DCRP. The DCEd was funded by 0.04% of the employers' contributions in fiscal year 2012.

DCRP Disability Fund: Implemented July 1, 2002, the DCRP Disability Fund (DC Disability), as governed by section 19-3-2117, MCA, will provide disability benefits to eligible members who have joined the PERS-DCRP. The DCRP Disability Fund received 0.3% of the employers' contribution.

The investment options offered are selected by the PERB in compliance with their Investment Policy Statement, the advice of an independent investment analyst, and assistance from the statutorily-created Employee Investment Advisory Council. Participants of the PERS-DCRP direct their contributions and a portion of their employer's contribution among the offered investment options. Participants may invest in any or all of the offered options and transfer between options on a daily basis, if desired. The remaining portion of the employer's contributions is used to reduce the Plan Choice Rate unfunded actuarial liability, to fund the long-term disability benefits to participants of the DCRP and to fund an employee education program.

The offered investment options fall into two primary types: (1) the fixed investment option and (2) the variable investment options.

Variable investments: The variable investment options include a variety of Large, Mid and Small Cap mutual funds, as well as a fixed income bond fund and Target Date Retirement Funds. Options range from aggressive to conservative. The mutual funds cover all standard asset classes and categories. The investment options as of June 30, 2012 are listed below.

PERS-DCRP Investment Options

International Stock Funds
American Funds New Perspective A
Oakmark International
Vanguard Total International Stock Index

Small Company Stock Funds
Vanguard Small Cap Growth Index
Vanguard Small Cap Index Signal
Target Small Cap Value

Mid-Sized Company Stock Funds
Munder Mid-Cap Core Growth A
Perkins Mid-Cap Value Fund T

Large Company Stock Funds
Alger Capital Appreciation Z
BlackRock Equity Index - Collective F
Vanguard Equity Income - Adm
JP Morgan US Equity

Balanced Funds
Vanguard Balanced Index - Inst'l

Bond Funds
Vanguard Total Bond Market Index Signal

Target Date Funds
T. Rowe Price Retirement 2005 through 2055

Fixed Investment Options
Montana Fixed Fund

Fixed investments: The fixed investments of the PERS-DCRP are administered through outside vendors Pacific Investment Management Company (PIMCO) and custodial bank, State Street Bank Kansas City (SSKC), and a third-party insurer, Transamerica. When participants invest in the fixed investment option they are guaranteed a fixed rate of return. The fixed investment employs a synthetic stable value strategy where the investment manager, PIMCO, manages a diversified bond portfolio and Transamerica guarantees the participants' principal investments. Transamerica calculates the rate of return each quarter, called the "crediting rate", which is used to credit earnings to participant accounts. Transamerica sets a fixed quarterly rate of return based on the investment manager's portfolio yield and duration.

PERB entered a Pooled Trust contract with Transamerica, PIMCO, and SSKC for all monies invested in the Fixed Investments in the PERS-DCRP and Deferred Compensation Plan. The Pooled Trust qualifies as a group trust under sections 401(a), including section 401(a)(24) and 501(a), of the IRC of 1986, as amended.

Administrative expenses and revenues that fund them are accounted for within the plan. Expenses for the DCRP can generally be classified as 1) administrative, including miscellaneous or 2) investment management. Following is a summary of revenues and expenses.

Administrative funding: PERB's administrative fee is a basis point (or percent) fee based on account balances. On a quarterly basis, the record keeper, Great-West Retirement Services (Great-West), withholds the basis point fee from each plan participant's account and submits the remainder to the

PERB after paying Great-West fees. They are recorded as *Miscellaneous Revenue* in the financial statements.

The PERB receives revenue sharing fees from certain mutual fund companies. These fees are normally charged by the mutual funds for the purpose of individual record keeping or marketing. Because the mutual fund companies involved in the PERS-DCRP do not need to keep records of participants' accounts and do not market the plan, the fees are returned to the PERB. The PERB uses revenue sharing fees to pay administrative expenses associated with the PERS-DCRP. These amounts are recorded as *Miscellaneous Revenue.*

Record keeping fees: The record keeper, Great-West, charges a set administrative fee to all plan participants. On a quarterly basis, the fees are withheld from each plan participant's account. They are recorded as *Miscellaneous Expense* in the financial statements.

Fixed investment fees: The fixed investment crediting rate is declared net of expenses. Fees on the fixed investments are charged by each of the three providers, PIMCO, SSKC and Transamerica. The fees are defined under each contract for specific services. The fees charged by PIMCO and SSKC for the externally managed fixed investments are classified as *Investment Expense*. The fees charged by Transamerica are classified as *Miscellaneous Expense.*

Mutual funds/variable investments fees: All of the variable investments have investment management fees; some may have additional administrative fees. These fees are not presented in the financial statements. Mutual fund earnings are declared net of all expenses, both investment management and administrative, in accordance with the Securities and Exchange Commission and other regulatory authorities. Current reporting standards for mutual fund companies do not require costs to be made available in the detailed cost reports.

Deferred Compensation Plan (457)

Plan Description: The Deferred Compensation (457) Plan is a voluntary supplemental retirement savings plan established in 1974. The Deferred Compensation Plan is governed by Title 19, chapter 50, MCA, in accordance with Internal Revenue Code (IRC) §457. This plan is available to all employees of the State, Montana University System, and contracting political subdivisions.

Assets of the Deferred Compensation Plan are required to be held in trusts, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. The record keeper for the plan is Great-West Retirement Services (Great-West). Participants elect to defer a portion of their salary, within Internal Revenue Code limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency while still employed, provided IRS-specified criteria are met.

A brief summary of eligibility and benefits is on the next page.

Deferred Compensation Plan Summary

Contribution
Voluntary, tax-deferred

Eligibility for benefit
Not available to participant until separation from service, retirement, death, or upon an unforeseeable emergency, while still employed, provided IRS-specified criteria are met.

Vesting
Participants are fully vested in their accounts immediately.

Benefit
Lump sum or periodic benefit payment, at the option of the participant. Based on individual account balances and plan provisions. IRS permitted rollovers are also possible.

At June 30, 2012 the Deferred Compensation Plan had 28 participating employers, an increase of five from fiscal year 2011. The participating employers consist of:

DEFERRED COMPENSATION EMPLOYERS

Employers	June 30, 2012	June 30, 2011
State of Montana*	1	1
Counties	3	2
Colleges and Universities	5	5
School Districts	5	4
Cities	6	4
Other	8	7
Total	28	23

*The State of Montana includes 34 agencies; however, due to the nature of the reporting for the 457 plan we are unable to specifically determine which agencies have participating employees.

Contributions: The Deferred Compensation Plan is a voluntary, tax-deferred retirement plan designed to supplement retirement, Social Security and other retirement plans and savings. Participants designate the amount to contribute within IRC limitations.

Plan participants direct their deferred salary among the offered investment options. The investment options offered are selected by the PERB in compliance with their Investment Policy Statement, the advice of an independent investment analyst, and the statutorily-created Employee Investment Advisory Council. Participants may invest in any or all of the offered options and transfer between options on a daily basis, if desired.

The offered investment options fall into two primary types: (1) the fixed investment option and (2) the variable investment options.

Variable investments: The variable investment options include a variety of Large, Mid and Small Cap mutual funds, as well as a fixed income bond fund and Target Date Retirement funds. All options range from aggressive to conservative. The mutual funds cover all standard asset classes and categories. The investment options as of June 30, 2012 are as follows.

Deferred Compensation (457) Plan
Investment Options

International Stock Funds
Artisan International
Mutual Global Discovery Z
Dodge & Cox International
American Funds New Perspective R4

Small Company Stock Funds
Neuberger Berman Genesis-Trust
Vanguard Small Cap Growth Index
Vanguard Small Cap Index Signal

Mid Cap Company Stock Funds
Munder Mid-Cap Core Growth A
Columbia Mid-Cap Value Fund Z

Large Cap Stock Funds
Davis NY Venture A
Fidelity Contrafund
Vanguard Institutional Index
Calvert Social Investment Fund Equity

Balanced Funds
Dodge & Cox Balanced

Bond Funds
Neuberger Berman High Income Inv
PIMCO Total Return

Target Date Funds
T. Rowe Price Retirement 2005 through 2055

Fixed Investment Options
Montana Fixed Fund

In addition to the investments listed, plan participants previously had the option to direct a portion of their deferrals to a term life insurance policy provided through Allianz Life Insurance. The ability to invest in life insurance is allowed under the IRC and was offered to plan participants prior to life insurance being offered as a standard component of health insurance benefit packages. This investment option has been discontinued; however, plan participants who had previously elected this option may continue.

Fixed investments: The fixed investments of the Deferred Compensation Plan are administered through outside vendors Pacific Investment Management Company (PIMCO) and custodial bank, State Street Bank Kansas City (SSKC), and a third-party insurer, Transamerica. When participants invest in the fixed investment options they are guaranteed a fixed rate of return. The fixed investment employs a synthetic stable value strategy where the investment manager, PIMCO, manages a diversified bond portfolio. Transameria guarantees the participants principal investments. Transamerica calculates the rate of return each quarter, called the "crediting rate", which is used to credit earnings to participant accounts. Transamerica sets a fixed quarterly rate of return based on the investment manager's portfolio yield and duration.

PERB entered a Pooled Trust contract with Transamerica, PIMCO and SSKC for all monies invested in the Fixed Investments in the PERS-DCRP and Deferred Compensation Plan. The Pooled Trust qualifies as a group

trust under sections 401(a), including section 401(a)(24) and 501(a), of the IRC of 1986, as amended.

Administrative expenses and the revenues that fund them are accounted for within the plan. Expenses for the Deferred Compensation Plan can generally be classified as 1) administrative, including miscellaneous or 2) investment management. Following is a summary of all expenses.

Administrative funding: PERB's administrative fee is a basis point (or percent) fee based on account balances. On a quarterly basis, the record keeper, Great-West Retirement Services (Great-West), withholds the basis point fee from each plan participant's account and submits the remainder to the PERB after paying Great-West fees. They are recorded as *Miscellaneous Revenue* in the financial statements.

The PERB receives revenue sharing fees from certain mutual fund companies. These fees are normally charged by the mutual funds for the purpose of individual record keeping or marketing. Because the mutual fund companies involved in the Deferred Compensation Plan do not need to keep records of participants' accounts and do not market the plan, the fees are returned to the PERB. The PERB uses revenue sharing fees to pay administrative expenses associated with the Deferred Compensation Plan. These amounts are recorded as *Miscellaneous Revenue.*

Record keeping fees: The record keeper, Great-West, charges a set administrative fee to all plan participants. On a quarterly basis, the fees are withheld from each plan participant's account. These amounts are recorded as *Miscellaneous Expense* in the financial statements.

Fixed investment fees: The fixed investment crediting rate is declared net of expenses. Fees on the fixed investments are charged by each of the three providers, PIMCO, SSKC and Transamerica. The fees are defined under each contract for specific services. The fees charged by PIMCO and SSKC for the externally managed fixed investments are classified as *Investment Expense.* The fees charged by Transamerica are classified as *Miscellaneous Expense.*

Mutual fund/variable investments fee: All of the variable investments have investment management fees; some may have additional administrative fees. These fees are not presented on the financial statements. Mutual fund earnings are declared net of expenses, both investment management and administrative, in accordance with the Securities Exchange Commission and other regulatory authorities. Current reporting standards for mutual companies do not require costs to be made available in the detailed cost reports.

FY 2012 Schedule of Contribution Rates			
System	**Member**	**Employer**	**State**
PERS-DBRP	**6.9%** - hired prior to 7/01/11 [19-3-315(1)(a)(i), MCA] **7.9%** - hired on or after 7/01/11 [19-3-315(1)(a)(ii), MCA]	**7.17%** State & University **7.07%** Local Governments **6.8%** School Districts (K-12) [19-3-316, MCA]	**0.1%** of local government payroll – paid from the General Fund **0.37%** School Districts (K-12) payroll – paid from the General Fund [19-3-319, MCA]
PERS-DCRP	**6.9%** - hired prior to 7/01/11 [19-3-315(1)(a)(i), MCA] **7.9%** - hired on or after 7/01/11 [19-3-315(1)(a)(ii), MCA]	**7.17%** State & University **7.07%** Local Governments **6.8%** School Districts (K-12) [19-3-316, MCA]	**0.1%** of local government payroll – paid from the General Fund **0.37%** School Districts (K-12) payroll – paid from the General Fund [19-3-319, MCA]
JRS	**7.0%** [19-5-402, MCA]	**25.81%** [19-5-404, MCA]	
HPORS	**9.0%** - hired prior to 7/01/97 & not electing GABA **9.05%** - hired after 6/30/97 & members electing GABA [19-6-402, MCA]	**26.15%** [19-6-404(1), MCA] **10.18%** of salaries – paid from the General Fund [19-6-404(2), MCA]	
SRS	**9.245%** [19-7-403, MCA]	**10.115%** [19-7-404, MCA]	
GWPORS	**10.56%** [19-8-502, MCA]	**9.0%** [19-8-504, MCA]	
MPORS	**7.0%** - hired after 6/30/75 & prior to 7/1/79 & not electing GABA [19-9-710(b), MCA] **8.5%** - hired after 6/30/79 and prior to 7/1/97 & not electing GABA [19-9-710(c), MCA] **9.0%** - hired after 6/30/97 & members electing GABA [19-9-710(d), MCA & 19-9-710(2), MCA]	**14.41%** [19-9-703, MCA]	**29.37%** of salaries – paid from the General Fund [19-9-702, MCA]
FURS	**9.5%** - hired prior to 7/1/97 & not electing GABA [19-13-601(2)(a), MCA] **10.7%** - hired after 06/30/97 & members electing GABA [19-13-601(2)(b), MCA]	**14.36%** [19-13-605, MCA]	**32.61%** of salaries – paid from the General Fund [19-13-604, MCA]
VFCA			**5.0%** of fire insurance premiums, paid from the General Fund [19-17-301, MCA]

Public Employees' Retirement Board

A Component Unit of the State of Montana

Required Supplementary Information

Schedule of Funding Progress

(in thousands)

System	Actuarial Valuation Date	Actuarial Value of Assets[1] (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio % (a/b)	Covered Payroll[2] (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
PERS-DBRP	06/30/07	$ 3,825,234	$ 4,201,251	$ 376,017	91.05	$ 947,424	39.69
	06/30/08	4,065,307	4,504,743	439,436	90.25	995,113	44.16
	06/30/09	4,002,212	4,792,819	790,607	83.50	1,043,215	75.79
	06/30/10	3,889,890	5,241,819	1,351,929	74.21	1,083,780	124.74
	06/30/11	3,800,479	5,410,144	1,609,665	70.25	1,071,376	150.24
	06/30/12	**3,816,920**	**5,661,281**	**1,844,361**	**67.42**	**1,081,288**	**170.57**
JRS	06/30/07	57,778	36,863	(20,915)	156.74	4,841	-432.04
	06/30/08	62,040	39,435	(22,605)	157.32	5,096	-443.58
	06/30/09	61,929	41,848	(20,081)	147.98	5,110	-392.99
	06/30/10	61,277	42,513	(18,765)	144.13	5,687	-329.95
	06/30/11	61,274	43,414	(17,860)	141.13	5,645	-316.38
	06/30/12	**63,195**	**46,190**	**(17,005)**	**136.81**	**6,193**	**-274.60**
HPORS	06/30/07	95,758	128,306	32,548	74.63	9,858	330.17
	06/30/08	101,500	134,683	33,183	75.36	10,866	305.38
	06/30/09	99,652	137,815	38,163	72.31	11,425	334.03
	06/30/10	97,204	151,177	53,973	64.30	13,036	414.03
	06/30/11	95,274	155,742	60,468	61.17	12,472	484.83
	06/30/12	**96,655**	**167,824**	**71,169**	**57.59**	**13,618**	**522.62**
SRS	06/30/07	183,894	189,036	5,142	97.28	43,611	11.79
	06/30/08	199,453	204,549	5,096	97.51	47,196	10.80
	06/30/09	200,690	223,893	23,203	89.64	51,457	45.09
	06/30/10	200,739	246,734	45,995	81.36	54,681	84.11
	06/30/11	203,689	266,506	62,817	76.43	57,041	110.12
	06/30/12	**211,535**	**284,559**	**73,024**	**74.34**	**59,583**	**122.56**

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

[1]Refer to the "Notes to the Required Supplementary Information" for the Actuarial Asset Valuation Method.

[2]Applicable only to the PERS-DBRP, the annual covered payroll has been corrected for FY2007 - FY2009 due to a database field that was not sufficient in length. This correction also impacts the UAAL as a percent of covered payroll.

System	Actuarial Valuation Date	Actuarial Value of Assets [1] (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio % (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
GWPORS	06/30/07	$ 68,755	$ 72,992	$ 4,237	94.20	$ 28,799	14.71
	06/30/08	77,511	83,449	5,938	92.88	32,365	18.35
	06/30/09	81,177	92,155	10,978	88.09	36,023	30.48
	06/30/10	85,151	113,855	28,704	74.79	39,436	72.79
	06/30/11	90,437	119,881	29,444	75.44	38,306	76.87
	06/30/12	**97,691**	**128,927**	**31,236**	**75.77**	**38,317**	**81.52**
MPORS	06/30/07	198,310	310,423	112,113	63.88	29,547	379.44
	06/30/08	212,312	327,556	115,244	64.82	32,181	358.11
	06/30/09	214,345	345,261	130,916	62.08	34,687	377.42
	06/30/10	217,545	380,393	162,848	57.19	37,220	437.52
	06/30/11	221,669	401,381	179,712	55.23	39,470	455.30
	06/30/12	**234,025**	**427,257**	**193,232**	**54.77**	**41,745**	**462.89**
FURS	06/30/07	188,545	269,399	80,854	69.99	24,250	333.42
	06/30/08	206,127	287,218	81,091	71.77	29,158	278.11
	06/30/09	209,775	306,236	96,460	68.50	30,160	319.83
	06/30/10	213,755	335,463	121,708	63.72	33,339	365.06
	06/30/11	219,959	355,188	135,229	61.93	34,852	388.01
	06/30/12	**233,121**	**377,211**	**144,090**	**61.80**	**36,177**	**398.30**
VFCA	06/30/07	25,862	31,599	5,737	81.84	N/A	N/A
	06/30/08	27,544	32,735	5,191	84.14	N/A	N/A
	06/30/09	27,226	33,548	6,322	81.16	N/A	N/A
	06/30/10	26,576	34,512	7,936	77.01	N/A	N/A
	06/30/11	26,183	35,195	9,012	74.39	N/A	N/A
	06/30/12	**26,531**	**36,146**	**9,615**	**73.40**	**N/A**	**N/A**

Covered payroll is not applicable to VFCA because members are unpaid volunteers.

Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

Public Employees' Retirement Board

A Component Unit of the State of Montana

Required Supplementary Information

Schedule of Funding Progress for OPEB

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio % (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2007		$ 1,047,666	$ 1,047,666	0.00	$1,326,012	79.03%
1/1/2009		$ 686,393	$ 686,393	0.00	$1,438,749	47.71%
1/1/2011		$ 463,762	$ 463,762	0.00	$1,644,229	28.21%

As of June 30, 2012, the most recent actuarial valuation available was completed by the State of Montana as of January 1, 2011 for the calendar year ending December 31, 2011. This actuarial valuation is completed every two years with the next valuation to be completed as of January 1, 2013 for the calendar year ending December 31, 2013. The State of Montana finances claims on a pay-as-you-go basis and does not advance fund the OPEB liability. Therefore, the funded ratio remains at 0% at June 30, 2012. This is the OPEB obligation for MPERA as a State of Montana employer and is determined by the State of Montana.

Public Employees' Retirement Board

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Notes to Required Supplementary Information for OPEB

Valuation Date	January 1, 2011
Actuarial cost method	Projected unit credit funding method
Amortization method	Level percent of payroll, open
Remaining amortization period	30 years
Asset valuation method	Not applicable since no assets meeting the definition of plan assets under GASB 45

Actuarial assumptions:

Projected salary increases	2.50%
Participation	
Future retirees	55.0%
Future eligible spouses	60.0%
Interest/Discount Rate	4.25%

Public Employees' Retirement Board

A Component Unit of the State of Montana

Required Supplementary Information

Schedule of Employer Contributions & Other Contributing Entities

System	Year Ended June 30	Annual Required Contributions	Actuarial Required Contribution Rate[1]	Percentage Contributed	Annual Required State Contribution[1]	Percentage Contributed
PERS-DBRP	2007 [2]	$ 62,908,960	6.64	105.75	$ 445,798	100.00
	2008 [2]	68,165,225	6.85	105.98	377,713	100.00
	2009 [2]	99,314,044	9.52	76.35	357,260	100.00
	2010	132,004,388	12.18	60.46	536,881	100.00
	2011	144,957,239	13.53	54.56	545,643	100.00
	2012	**148,104,042**	**13.70**	**53.68**	**535,506**	**100.00**
JRS[3]	2007					
	2008					
	2009					
	2010					
	2011	38,387	0.68	3,846.97		
	2012	**137,479**	**2.22**	**1,162.61**		
HPORS	2007	3,581,499	36.33	101.48	284,631	100.00
	2008	3,947,723	36.33	100.03	289,515	100.00
	2009	2,500,911	21.89	165.97	285,517	100.00
	2010	3,403,692	26.11	139.93	286,829	100.00
	2011	3,926,052	31.48	115.69	278,464	100.00
	2012	**4,348,117**	**31.93**	**114.21**	**269,335**	**100.00**
SRS	2007	4,175,763	9.58	105.04		
	2008	4,443,543	9.42	108.78		
	2009	6,506,675	12.65	79.81		
	2010	7,734,578	14.15	72.88		
	2011	8,747,310	15.34	68.75		
	2012	**9,512,375**	**15.97**	**63.37**		

Refer to the "Notes to the Required Supplementary Information".

This schedule was revised in FY2005 to reflect the actuarially calculated ARC rather than the statutory rate that was previously used.

[1] The Annual Required State Contribution for HPORS includes a statutory appropriation from the general fund. For MPORS and FURS it is based on covered payroll, which includes payroll adjustments.

[2] Applicable only to the PERS-DBRP, the annual covered payroll has been changed for FY2007 - FY2009 due to a database field that was not sufficient in length. This change impacts the the Annual Required Contributions and Percentage contributed.

[3] The actuarial value of assets is greater than the actuarial accrued liabilities for FY2007-FY2010. The funding excess is large enough so that the sum of normal cost and the amortization of the funding excess is negative. Common actuarial practice is to set the ARC at zero. (No employer contribution would be required for these years.)

System	Year Ended June 30	Annual Required Contributions	Actuarial Required Contribution Rate[1]	Percentage Contributed	Annual Required State Contribution[1]	Percentage Contributed
GWPORS	2007	$ 2,217,558	7.70	118.94		
	2008	2,540,673	7.85	117.23		
	2009	3,490,652	9.69	94.31		
	2010	4,917,654	12.47	73.45		
	2011	4,903,232	12.80	71.85		
	2012	**4,843,235**	**12.64**	**71.65**		
MPORS	2007	4,258,134	14.41	100.58	8,678,793	100.00
	2008	4,637,223	14.41	111.19	9,451,808	100.00
	2009	3,454,837	9.96	146.35	10,185,974	100.00
	2010	3,896,969	10.47	176.04	10,931,612	100.00
	2011	4,625,936	11.72	122.58	11,593,690	100.00
	2012	**5,046,941**	**12.09**	**119.97**	**12,273,769**	**100.00**
FURS	2007	3,482,288	14.36	101.09	7,907,898	100.63
	2008	4,187,118	14.36	106.68	9,568,388	100.63
	2009	117,622	0.39	3,852.37	9,831,417	100.00
	2010	850,134	2.55	603.27	10,871,717	100.00
	2011	1,341,808	3.85	373.29	11,365,441	100.00
	2012	**1,512,185**	**4.18**	**349.25**	**11,797,130**	**100.00**
VFCA	2007				1,660,695	100.00
	2008				1,562,019	100.00
	2009				1,579,887	100.00
	2010				1,574,589	100.00
	2011				1,596,436	100.00
	2012				**1,635,400**	**100.00**

Public Employees' Retirement Board

A Component Unit of the State of Montana

Notes to the Required Supplementary Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of latest actuarial valuation follows:

	PERS-DBRP	JRS	HPORS
Valuation date	June 30, 2012	June 30, 2012	June 30, 2012
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open
Remaining amortization period in years:			
Unfunded Liability	Does not amortize[1]		49.7 [1]
Unfunded Credit [2]		0	
Asset valuation method	4-Year smoothed market	4-Year smoothed market	4-Year smoothed market
Actuarial assumptions:			
Investment rate of return compounded annually	7.75%	7.75%	7.75%
Projected salary increases			
General Wage Growth*	4.00%	4.00%	4.00%
Merit	0% - 6%	None	0% - 7.3%
*Includes inflation at	3.00%	3.00%	3.00%
Benefit Adjustments			
GABA	3% or 1.5% for new hires on or after July 1, 2007, after 1 year	3% after 1 yr	3% after 1 yr
Non-GABA	N/A	Biennial increase to salary of active member in like position	2% per yr service, not to exceed 5%, for probationary officer's base pay

[1] The amortization period for the unfunded actuarial liability in the PERS, SRS, GWPORS and HPORS exceeds 30 years.

[2] Assets are larger than the past service liability – creating an unfunded credit; the credit is amortized over future costs and the amortization period may not exceed 30 years.

SRS	GWPORS	MPORS	FURS	VFCA
June 30, 2012	June 30, 2012	June 30, 2012	June 30, 2012	June 30, 2012
Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level dollar amount, open
Does not amortize[1]	Does not amortize[1]	25.7	16.4	9.3 Based on Current Revenue
4-Year smoothed market	4-Year smoothed market	4-Year smoothed market	4-Year smoothed market	4-Year smoothed market
7.75%	7.75%	7.75%	7.75%	7.75%
4.00%	4.00%	4.00%	4.00%	N/A
0% - 7.3%	0% - 7.3%	0% - 7.3%	0% - 7.3%	N/A
3.00%	3.00%	3.00%	3.00%	
3% or 1.5% for new hires on or after July 1, 2007, after 1 year	3% or 1.5% for new hires on or after July 1, 2007, after 1 year	3% after 1 yr	3% after 1 yr	N/A
N/A	N/A	50% newly confirmed officer	50% newly confirmed officer	N/A

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Public Employees' Retirement Board

A Component Unit of the State of Montana

Schedule of Administrative Expenses

Year Ended June 30, 2012

	Defined Benefit Plans	PERS-DBRP Education Fund	Defined Contribution PERS-DCRP	Deferred Compensation (457) Plan
Personal Services				
Salaries	$ 1,517,182	$ 149,037	$ 170,252	$ 106,436
Board Members' Per Diem	8,610		1,050	840
Employee Benefits	522,606	51,460	59,824	34,936
Total Personal Services	2,048,398	200,497	231,126	142,212
Other Services				
Consulting & Professional Services	993,220	497	132,157	124,071
Legal Fees and Court Costs	15,523		362	120
Audit Fees	36,287		4,425	3,540
Medical Services	13,663			
Records Storage	16,531		1,880	389
Computer Processing	169,882	243	21,463	13,925
Printing and Photocopy Charges	48,838	3,975	2,527	5,045
Warrant Writing Services	19,278		2,351	1,881
Other	112,093	1,324	13,781	10,707
Total Other Services	1,425,315	6,039	178,946	159,678
Communications				
Recruitment Costs	93		1	1
Postage and Mailing	87,042	476	2,691	2,111
Telephone	37,274	5,155	4,969	2,867
Total Communications	124,409	5,631	7,661	4,979
Other Expenses				
Supplies and Materials	101,846	2,986	11,581	9,383
Travel	34,622	3,656	7,006	5,899
Rent	204,337	16,055	26,003	15,718
Repairs and Maintenance	2,501	192	319	192
Compensated Absences	40,979	6,479	5,573	4,818
OPEB Expenses	77,934	7,587	9,071	5,040
Miscellaneous	175,945	8,265	15,379	9,825
Total Other Expenses	638,164	45,220	74,932	50,875
Total Administrative Expenses	**$ 4,236,286**	**$ 257,387**	**$ 492,665**	**$ 357,744**

Public Employees' Retirement Board

A Component Unit of the State of Montana

Schedule of Investment Expenses

Year Ended June 30, 2012

Plan	Investment Manager	Fees
PERS-DBRP	Board of Investments	$21,334,520
JRS	Board of Investments	347,590
HPORS	Board of Investments	537,199
SRS	Board of Investments	1,160,438
GWPORS	Board of Investments	525,501
MPORS	Board of Investments	1,227,287
FURS	Board of Investments	1,221,448
VFCA	Board of Investments	142,070
DC - Stable Value	PIMCO	176,639
	State Street Bank	14,852
457 - Stable Value	PIMCO	505,142
	State Street Bank	33,718
Total Investment Expense		**$27,226,404**

Public Employees' Retirement Board

A Component Unit of the State of Montana

Schedule of Professional/Consultant Fees

Year Ended June 30, 2012

Individual or Firm	Nature of Service	Amount Paid
Consultant Fees		
Amdec, LTD	Computer Programming Services	$ 126,490
Beki Glyde Brandborg	Facilitator	2,800
CEM Benchmarking, Inc.	Benchmarking Information Services	20,000
Cheiron, Inc	Actuarial Consultant	93,344
Comserv, Inc.	Death Validation Services	1,400
Government Finance Officers Assoc	CAFR Review	1,095
Ice Miller	Tax Consultants	34,268
Informatix, Inc.	Imaging Services	48,658
Jason Slead	Presentation Equipment Services	75
Montana Board of Public Accountants	CPA Services	150
Montana Investigative Group, Inc.	Private Investigators	3,500
Provaliant Retirement, LLC	Project Management	309,831
Recall Secure Destruction Services	Secure Shredding Services	380
Sagitec Solutions, LLC	Pension Systems Design	401,019
Seisint, Inc.	Risk Data Management Services	624
Ventera Corporation	Data Cleansing Services	96,445
Westaff	Temporary Employment Services	7,033
Wilshire Associates Inc.	Mutual Funds Performance Review	102,833
Consultant Fees Subtotal		1,249,945
Other Professional Fees		
Dean Gregg, PHD	Medical Consultant	$ 4,800
Department of Justice	Legal Services	12,130
Legislative Audit Division	Independent Auditors	44,258
Timothy D Schofield, MD PLLC	Medical Consultant	5,476
Other Professional Fees Subtotal		66,664
Total Professional/Consultant Fees		$ 1,316,609

Public Employees' Retirement Board

A Component Unit of the State of Montana

Detail of Fiduciary Net Assets (PERS-DBRP and PERS-DBEd)

as of June 30, 2012

	PERS-DBRP	PERS-DBEd	TOTAL
Assets			
Cash and Short-term Investments	$ 37,366,719	$ 2,414,218	$ 39,780,937
Securities Lending Collateral	176,219,892	5,037	176,224,929
Receivables			
Interest	5,317,902	614	5,318,516
Accounts Receivable	4,465,062		4,465,062
Due from Other Funds	396,799	12,181	408,980
Notes Receivable	48,108		48,108
Total Receivables	10,227,871	12,795	10,240,666
Investments, at fair value			
Montana Domestic Equity Pool (MDEP)	1,455,188,392		1,455,188,392
Retirement Fund Bond Pool (RFBP)	974,139,458		974,139,458
Montana International Pool (MTIP)	621,886,728		621,886,728
Montana Private Equity Pool (MPEP)	512,314,695		512,314,695
Montana Real Estate Pool (MTRP)	315,092,832		315,092,832
Structured Investment Vehicles (SIV)	546,598	39,519	586,117
Total Investments	3,879,168,703	39,519	3,879,208,222
Capital Assets			
Property and Equipment, at cost,			
net of Accumulated Depreciation	11,307		11,307
Intangible Assets, at cost,			
net of Amortization Expense	35,120		35,120
Total Capital Assets	46,427		46,427
Total Assets	4,103,029,612	2,471,569	4,105,501,181
Liabilities			
Securities Lending Liability	176,219,892	5,037	176,224,929
Accounts Payable	810,714	9,356	820,070
Due to Other Funds	377,747	1,276	379,023
Deferred Revenue	3,261,548		3,261,548
Compensated Absences	216,242	19,872	236,114
OPEB Implicit Rate Subsidy LT	331,236	36,080	367,316
Total Liabilities	181,217,379	71,621	181,289,000
Net Assets Held in Trust for Pension Benefits	**$ 3,921,812,233**	**$ 2,399,948**	**$ 3,924,212,181**

Public Employees' Retirement Board

A Component Unit of the State of Montana

Detail of Changes in Fiduciary Net Assets (PERS-DBRP and PERS-DBEd)

for the Fiscal Year Ended June 30, 2012

	PERS-DBRP	PERS-DBEd	TOTAL
Additions			
Contributions			
Employer	$ 79,497,911	$ 421,120	$ 79,919,031
Plan Member	79,261,405		79,261,405
Membership Fees	10		10
Interest Reserve Buyback	70,955		70,955
Retirement Incentive Program	128,352		128,352
Miscellaneous Revenue	1,290		1,290
State Contributions	535,506		535,506
Total Contributions	159,495,429	421,120	159,916,549
Investment Income			
Net Appreciation (Depreciation)			
in Fair Value of Investments	(4,403,263)		(4,403,263)
Interest	99,009,287	6,512	99,015,799
Dividends	16,850,207		16,850,207
Investment Expense	(21,334,520)		(21,334,520)
Net Investment Income	90,121,711	6,512	90,128,223
Securities Lending Income			
Securities Lending Income	1,579,927	711	1,580,638
Securities Lending Rebate and Fees	(353,256)	(140)	(353,396)
Net Securities Lending Income	1,226,671	571	1,227,242
Total Net Investment Income	91,348,382	7,083	91,355,465
Total Additions	250,843,811	428,203	251,272,014
Deductions			
Benefits	252,762,398		252,762,398
Refunds/Distributions	11,990,973		11,990,973
Refunds to Other Plans	316,776		316,776
Transfers to DCRP	609,358		609,358
Transfers to ORP	122,882		122,882
OPEB Expenses	73,260	7,587	80,847
Administrative Expenses	3,058,174	249,800	3,307,974
Total Deductions	268,933,821	257,387	269,191,208
Net Increase (Decrease)	(18,090,010)	171,816	(17,919,194)
Net Assets Held in Trust for Pension Benefits			
Beginning of Year	**3,939,878,622**	**2,229,132**	**3,942,107,754**
Prior Period Adjusment	**23,621**		**23,621**
End of Year	**$ 3,921,812,233**	**$ 2,399,948**	**$ 3,924,212,181**

Public Employees' Retirement Board

A Component Unit of the State of Montana

Detail of Fiduciary Net Assets (PERS-DCRP, PERS-DCEd and PERS-DC Disability)

as of June 30, 2012

	PERS-DCRP	PERS-DCEd	PERS-DC DISABILITY	TOTAL
Assets				
Cash and Short-term Investments	$ 1,505,450	$ 173,308	$ 1,879,572	$ 3,558,330
Securities Lending Collateral	2,971	353	3,934	7,258
Receivables				
Interest	367	44	477	888
Accounts Receivables	84,206			84,206
Due from Other Funds	355,995	1,276	9,571	366,842
Total Receivables	440,568	1,320	10,048	451,936
Investments, at fair value				
Defined Contributions Fixed Investments	9,500,087			9,500,087
Defined Contributions Variable Investments	73,768,774			73,768,774
Structured Investment Vehicles (SIV)	23,307	2,771	30,868	56,946
Total Investments	83,292,168	2,771	30,868	83,325,807
Property and Equipment, at cost,				
net of Accumulated Depreciation (Note A2)	2,579			2,579
Intangible Assets, at cost,				
net of Amortization Expense (Note A2)	1,226			1,226
Total Assets	85,244,962	177,752	1,924,422	87,347,136
Liabilities				
Securities Lending Liability	2,971	353	3,934	7,258
Accounts Payable	112,535	1,512		114,047
Compensated Absences	23,707	3,170		26,877
OPEB Implicit Rate Subisidy LT	38,493	3,510		42,003
Total Liabilities	177,706	8,545	3,934	190,185
Net Assets Held in Trust for Pension Benefits	**$ 85,067,256**	**$ 169,207**	**$ 1,920,488**	**$ 87,156,951**

Public Employees' Retirement Board

A Component Unit of the State of Montana

Detail of Changes in Fiduciary Net Assets (PERS-DCRP, PERS-DCEd and PERS-DC Disability)

for the Fiscal Year Ended June 30, 2012

	PERS-DCRP	PERS-DCEd	PERS-DC DISABILITY	TOTAL
Additions				
Contributions				
Employer	$ 3,820,015	$ 43,949	$ 272,882	$ 4,136,846
Plan Member	6,317,882			6,317,882
Miscellaneous Revenue	201,852			201,852
Forfeiture of Nonvested Member	414,627			414,627
Total Contributions	10,754,376	43,949	272,882	11,071,207
Investment Income				
Net Appreciation (Depreciation) in Fair Value of Investments	719,662			719,662
Interest	1,817,188	476	4,944	1,822,608
Investment Expense	(191,491)			(191,491)
Net Investment Income	2,345,359	476	4,944	2,350,779
Securities Lending Income				
Securities Lending Income	452	52	540	1,044
Securities Lending Rebate and Fees	(89)	(10)	(107)	(206)
Net Securities Lending Income	363	42	433	838
Total Net Investment Income	2,345,722	518	5,377	2,351,617
Total Additions	13,100,098	44,467	278,259	13,422,824
Deductions				
Benefits			27,310	27,310
Distributions	3,973,069			3,973,069
OPEB Expensee	7,859	1,212		9,071
Administrative Expenses	442,891	40,703		483,594
Miscellaneous Expenses	313,278			313,278
Total Deductions	4,737,097	41,915	27,310	4,806,322
Net Increase (Decrease)	8,363,001	2,552	250,949	8,616,502
Net Assets Held in Trust for Pension Benefits				
Beginning of Year	**76,951,472**	**166,655**	**1,669,539**	**78,787,666**
Prior Period Adjustment	(247,217)			**(247,217)**
End of Year	**$ 85,067,256**	**$ 169,207**	**$ 1,920,488**	**$ 87,156,951**

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Public Employees' Retirement Board

Board Response

MONTANA PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION

STEVE BULLOCK
GOVERNOR

ROXANNE MINNEHAN
EXECUTIVE DIRECTOR

STATE OF MONTANA

MPERA
MONTANA PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION

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mpera.mt.gov

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JAN 29 2013
LEGISLATIVE AUDIT DIV.

January 28, 2013

Tori Hunthausen, CPA, Legislative Auditor
Legislative Audit Division
State Capitol, Room 160
Helena, MT 59650

Dear Ms. Hunthausen:

We appreciate the opportunity to respond to the recommendations in the Financial Audit of the Public Employees' Retirement Board (PERB) for fiscal year ended June 30, 2012. We understand there are two recommendations. One regards the restoration of the Public Employees' Retirement System-Defined Benefit Retirement Plan, Sheriffs' Retirement System, the Game Wardens' and Peace Officers' Retirement System and the Highway Patrol Officers' Retirement System to actuarial soundness; the second to follow MPERA established internal control procedures regarding reconciliations.

Recommendation #1

We recommend the Public Employees' Retirement Board continue to promote legislation to restore actuarial soundness of the Public Employees' Retirement System-Defined Benefit Retirement Plan, Sheriffs' Retirement System, Game Wardens' and Peace Officers' Retirement System, and the Highway Patrol Officers' Retirement System as required by the Montana Constitution.

Response

We concur. The retirement systems are to be funded on an actuarially sound basis as required by the Montana Constitution and state law. In the 2011 Legislative session, the PERB proposed legislation that included both plan design changes and additional contributions from employers and new members to address long-term plan sustainability. The final legislation removed all of the funding except for a one time increase for PERS new hires and kept the plan design changes.

One of the fundamental principles of defined benefit plans is to ensure the Annual Required Contributions (ARC) are received timely by the plans. The ARC has not been received for the past four years in the Public Employees' Retirement System (PERS), Sheriffs' Retirement System (SRS); the past three years in Game Wardens' and Peace Officers' Retirement System (GWPORS); and for FY 2011 and 2012 in Highway Patrol Officers' Retirement System (HPORS).

The PERB has worked with interim committees and is proposing legislation in the 2013 Legislative session to address the actuarial soundness of the four retirement plans. The PERB has introduced three bills to address the soundness of the retirement systems. House Bill 95 requires employer contributions on working retiree compensation for PERS, SRS and FURS. These are positions that would otherwise be filled with new members where employee and employer contributions would be paid. Losing these contributions has a negative impact on the systems. House Bill 96 provides funding for PERS, SRS, GWPORS and HPORS by increasing the employer contributions by 0.25% every year over the next four years for a total increase of 1%. House Bill 97 caps the highest/final average compensation (HAC/FAC) at 15% for new hires in all systems. If a member receives a large increase in the final years of employment impacting their HAC/FAC, then sufficient contributions have not been received over the course of a career to fund the increased benefit. This bill was proposed in response to the Legislative Audit Division's recommendation to have the Legislature consider revising the elements of compensation used in calculating retirement benefits reducing the risk of inflated benefits. The PERB will continue to work with the Legislature to address the actuarial soundness of the retirement systems.

Recommendation #2

We recommend the Public Employees' Retirement Board follow established internal control procedures by completing reconciliations of Section 457 Deferred Compensation plan investment activity.

Response

We concur. MPERA has well established internal controls. Due to a vacancy in the position and subsequently, the inexperience of a new employee, the process was not satisfactorily reviewed. MPERA agrees we need to follow our own internal control procedures more rigorously especially during periods of staffing shortages. It should be noted that MPERA management did discover the error and as the audit reports states, the 2012 financial statements were adjusted prior to publishing.

We appreciate the time and effort expended to complete this financial-compliance audit. Although the audit was not completed in the usual timeframe, your staff worked hard to accommodate the need to have this annual report available to the Legislature and to the GFOA. We appreciate the courtesy and consideration extended to MPERA during the audit.

Thank you for your assistance.

Sincerely,

Roxanne M. Minnehan

Roxanne M. Minnehan
Executive Director